

Registered No: SC172880

Atlantic Resourcing Limited

Report and Financial Statements

31 December 2019

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COMPANIES HOUSE

Atlantic Resourcing Limited

Registered No: SC172880

Directors

D A Blackburn

R S McKnight

N D Shorten

C W Thompson

Auditors

Ernst & Young LLP

Blenheim House

Fountainhall Road

Aberdeen

AB15 4DT

Registered office

Bridge View

1 North Esplanade West

Aberdeen

AB11 5QF

Atlantic Resourcing Limited

Registered No: SC172880

Strategic report

The directors present their strategic report for the year ended 31 December 2019.

Principal activities and review of the business

The principal activity of the company is the provision of skilled personnel to the energy industry. This includes the provision of skilled offshore and onshore personnel on a contract, short term supply or contract crewing basis to the following sectors: production, engineering and construction.

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

	2019 £000	2018 £000	Change %
Turnover	49,940	41,622	20%
Operating profit	735	1,391	(47%)
Profit after tax	764	1,264	(40%)
Shareholder's equity	33,346	32,582	2%
<hr/>			
Current assets as a percentage of current liabilities	452%	512%	
Average number of employees	160	180	

2019 saw the low oil price environment begin to recover with an increase in turnover mainly due to the increased spend in the engineering sector.

The company continues to focus on the provision of personnel to fellow Petrofac Group companies.

Future developments

The directors remain committed to a strategy of providing skilled personnel to the energy industry, with a focus on meeting internal requirements.

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.

- Oil price

Volatility in oil and gas prices could influence the level of investment in the industry and, hence, the demand for our services.

- COVID-19

Following the outbreak of COVID-19 (Coronavirus) in 2020, the company along with the wider oil industry has witnessed unprecedented macro-economic uncertainty. The scale, duration and impact of the global pandemic, combined with the sharp downward trend in oil price, is at this time unclear. The management team have put in place a comprehensive plan to guide the business through this difficult period and are assessing the effects of the plan on a regular, ongoing basis.

Atlantic Resourcing Limited

Registered No: SC172880

Strategic report (continued)

Principal risks and uncertainties (continued)

Section 172 (1) Statement

The directors consider, both individually and collectively, that they have acted in a way they consider, in good faith, to be most likely to promote the success of the Group and the company for the benefit of its stakeholders and matters set out in s172 (1) of the Companies Act 2006 in respect of decisions taken during the year. The directors have a duty to promote the success of their company for the benefit of their members as a whole, whilst having regard for the interests of employees, the success of their relationships with suppliers and customers, the impact of their operations on the community and environment, and maintaining a reputation for high standards of business conduct.

Corporate governance stakeholder interests which the directors have considered when discharging their duty under s172 (1) are detailed below:

Shareholders

The Board recognises the importance of establishing and maintaining good relationships with the company's shareholders. Delivering a strong return to our investors is a key priority for the Board. We also take into consideration the views of our investors and shareholders in our strategy discussions to enable us to provide the information that will drive informed investment decisions.

Employees

Our employees, their attitude and skills set us apart from our competitors. We are committed to ensuring we have safe and effective working environments, which can enable everyone within the business to perform to their true potential, in an inclusive environment with fair labour practices.

Communities

We actively support local communities to address local issues responsibly, to develop closer ties, and to manage the social and environmental impacts of our business, which we believe will bring long-term sustainability to the communities where we work.

Clients

To understand the needs and concerns of our clients and communicate on various operating issues so that they are understood and considered, while gaining relevant feedback and views, in the identification of growth opportunities.

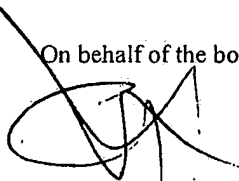
Suppliers

Wherever the company operates, we are committed to employing local people, working with local suppliers, and developing local capabilities.

Governments, regulators, and industry bodies

We work with governments on a range of issues, as government policy and regulation can have implications for our business.

On behalf of the board



C W Thompson
Director
21 October 2020

Atlantic Resourcing Limited

Registered No: SC172880

Directors' report

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

Results and dividends

The profit for the year, after taxation, amounted to £764,000 (2018 – £1,264,000). The company has not paid a dividend in respect of the year ended 31 December 2019 (2018 – £nil).

Directors

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

D A Blackburn
R S McKnight
N D Shorten (appointed 8 March 2019)
D Stephen (resigned 8 March 2019)
C W Thompson (appointed 8 March 2019)

Going concern

In assessing whether the financial statements for the company should be prepared on the going concern basis, the directors have considered the future outlook of the company. The directors have received written confirmation that Petrofac Facilities Management Group Limited (the immediate parent) will continue to provide support to enable the company to pay its liabilities as and when they become due. In addition, Petrofac UK Holdings Limited (immediate parent of Petrofac Facilities Management Group Limited) have provided confirmation that they will continue to provide support to Petrofac Facilities Management Group Limited to pay its liabilities as and when they become due. Furthermore, Petrofac Limited (the ultimate parent company) have provided support to Petrofac UK Holdings Limited to enable Petrofac UK Holdings Limited to pay its liabilities as and when they become due. As such, in assessing the ability of the company to continue as a going concern, the directors have to consider the outlook and financial situation of the immediate parent, as well as the ultimate parent, Petrofac Limited, and the Petrofac Group.

The COVID-19 pandemic is expected to have an impact on the cashflows and operations of the Petrofac Group. The three risks that had the greatest aggregated negative impact on cash flow during the assessment period were: deterioration in net working capital driven by an increase in Days Sales Outstanding (DSO); cost overruns negatively impacting cash flow; and, lower new order intake in 2020. The directors of Petrofac Limited concluded, after rigorously evaluating relevant, available information, that there were no material uncertainties concerning events or conditions that may cast significant doubt on the ultimate parent's ability to continue as a going concern for a period of at least 12 months from the date of approval of the financial statements of Atlantic Resourcing Limited. This conclusion also required a significant judgement concerning the Group's financial capacity. The significant judgement focused upon access to funding to maintain adequate liquidity and was prompted by the Group's funding maturity profile and reduced lending appetite generally, and to the oil & gas and related sectors in particular. This judgement was predicated upon the following key factors:

- the Group's strong balance sheet and credit metrics;
- management's financing track record;
- the status of discussions with lenders;
- indications of support from existing and potential lenders.

Thus the directors are satisfied that the immediate parent has the ability to provide the support it has pledged to the company. Given this continued parental support, the directors deem it appropriate to prepare the financial statements of Atlantic Resourcing Limited on the going concern basis.

Atlantic Resourcing Limited

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Directors' report (continued)

Post balance sheet events

Details of post balance sheet events are set out in note 15 to the financial statements.

Disclosure of information to the auditors

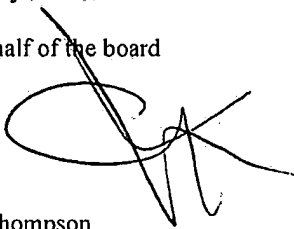
The directors who were members of the board at the time of approving the directors' report are listed on page 1. Having made enquiries of fellow directors and of the company's auditors, each of these directors confirms that:

- 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 handwritten signature in black ink, appearing to be 'C W Thompson', written over the text 'On behalf of the board'.

C W Thompson
Director
21 October 2020

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 Atlantic Resourcing Limited

Opinion

We have audited the financial statements of Atlantic Resourcing Limited for the year ended 31 December 2019 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 15, 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 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report 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.

Emphasis of matter – Effects of Covid-19

We draw attention to Note 1 of the financial statements, which describes the economic and social consequences the company is facing as a result of COVID-19 which is impacting supply chains, consumer demand, financial markets, commodity prices, personnel available for work and or being able to access offices. Our opinion is not modified in respect of this matter.

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 Atlantic Resourcing 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 6, 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
11 November 2020

Income statement

For the year ended 31 December 2019

	Notes	2019 £000	2018 £000
Turnover	3	49,940	41,622
Cost of sales		(49,197)	(39,743)
Gross Profit		743	1,879
Administrative expenses		(8)	(488)
Operating Profit		735	1,391
Interest receivable	6	210	175
Interest payable	7	(3)	(6)
Profit on ordinary activities before taxation		942	1,560
Tax charge on profit on ordinary activities	8	(178)	(296)
Profit for the financial year		764	1,264

All activities relate to continuing operations.

Statement of comprehensive income

For the year ended 31 December 2019

	2019 £000	2018 £000
Profit for the financial year	764	1,264
Total comprehensive income for the year	764	1,264

Statement of changes in equity

For the year ended 31 December 2019

	<i>Share capital £000</i>	<i>Profit and loss account £000</i>	<i>Total Equity £000</i>
At 1 January 2018	19,000	12,318	31,318
Profit for the financial year	-	1,264	1,264
At 31 December 2018	19,000	13,582	32,582
Profit for the financial year	-	764	764
At 31 December 2019	19,000	14,346	33,346

Atlantic Resourcing Limited

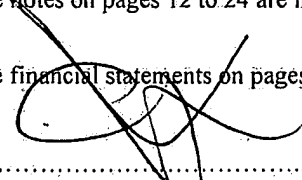
Registered No: SC172880

Statement of financial position at 31 December 2019

	Notes	2019 £'000	2018 £'000
Current assets			
Trade and other receivables	9	42,440	40,279
Cash at bank		372	217
		<u>42,812</u>	<u>40,496</u>
Creditors: amounts falling due within one year			
Trade and other payables	10	9,466	7,914
Net current assets		<u>33,346</u>	<u>32,582</u>
Net assets		<u>33,346</u>	<u>32,582</u>
Capital and reserves			
Share capital	13	19,000	19,000
Profit and loss account		14,346	13,582
Total equity		<u>33,346</u>	<u>32,582</u>

The notes on pages 12 to 24 are in integral part of these financial statements.

The financial statements on pages 9 to 11 were authorised for issue by the board of directors on 21 October 2020.


.....
C W Thompson
Director

Notes to the financial statements

at 31 December 2019

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

The separate financial statements of Atlantic Resourcing Limited (the "Company") for the year ended 31 December 2019 were authorised for issue by the board of directors on 21 October 2020 and the statement of financial position was signed on the board's behalf by Carl W Thompson. Atlantic Resourcing Limited is a private company, limited by shares and is incorporated and domiciled in Scotland.

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

In assessing whether the financial statements for the Company should be prepared on the going concern basis, the directors have considered the future outlook of the Company. The directors have received written confirmation that Petrofac Facilities Management Group Limited (the immediate parent) will continue to provide support to enable the Company to pay its liabilities as and when they become due. In addition, Petrofac UK Holdings Limited (immediate parent of Petrofac Facilities Management Group Limited) have provided confirmation that they will continue to provide support to Petrofac Facilities Management Group Limited to pay its liabilities as and when they become due. Furthermore, Petrofac Limited (the ultimate parent company) have provided support to Petrofac UK Holdings Limited to enable Petrofac UK Holdings Limited to pay its liabilities as and when they become due. As such, in assessing the ability of the Company to continue as a going concern, the directors have to consider the outlook and financial situation of the immediate parent, as well as the ultimate parent, Petrofac Limited, and the Petrofac Group.

The COVID-19 pandemic is expected to have an impact on the cashflows and operations of the Petrofac Group. The three risks that had the greatest aggregated negative impact on cash flow during the assessment period were: deterioration in net working capital driven by an increase in Days Sales Outstanding (DSO); cost overruns negatively impacting cash flow; and, lower new order intake in 2020. The directors of Petrofac Limited concluded, after rigorously evaluating relevant, available information, that there were no material uncertainties concerning events or conditions that may cast significant doubt on the ultimate parent's ability to continue as a going concern for a period of at least 12 months from the date of approval of the financial statements of Atlantic Resourcing Limited. This conclusion also required a significant judgement concerning the Group's financial capacity. The significant judgement focused upon access to funding to maintain adequate liquidity and was prompted by the Group's funding maturity profile and reduced lending appetite generally, and to the oil & gas and related sectors in particular. This judgement was predicated upon the following key factors:

- the Group's strong balance sheet and credit metrics;
- management's financing track record;
- the status of discussions with lenders;
- indications of support from existing and potential lenders.

Thus the directors are satisfied that the immediate parent has the ability to provide the support it has pledged to the Company. Given this continued parental support, the directors deem it appropriate to prepare the financial statements of Atlantic Resourcing Limited on the going concern basis.

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).

Notes to the financial statements

at 31 December 2019

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2019.

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

- 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
- 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 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 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 Company is consolidated.

2.2 Adoption of new financial reporting standards, amendments and interpretations

Effective new financial reporting standards

The Company adopted IFRS 16 'Leases' on 1 January 2019. The nature and effect of the changes are described below.

IFRS 16 'Leases'

IFRS 16 replaced IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC-15 'Operating Leases – Incentives' and SIC-27 'Evaluating the Substance of Transactions involving the Legal Form of a Lease' for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases on their balance sheets as lease liabilities with corresponding right-of-use assets.

The application of IFRS 16 at 1 January 2019, had no impact on these financial statements.

Notes to the financial statements

at 31 December 2019

2. Summary of significant accounting policies (continued)

2.3 Significant accounting judgements and estimates (continued)

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 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:

- **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.

2.3 Significant accounting policies

Revenue from contracts with customers

The principal activity is the provision of skilled personnel to the oil and gas industry. 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 the 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.

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 discloses 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 turnover.

Foreign currency translation

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

Notes to the financial statements

at 31 December 2019

2. Summary of significant accounting policies (continued)

2.4 Significant accounting policies (continued)

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.

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.

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 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 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 the pre-tax discount rates to discount pre-tax cash flows and post-tax discount rates 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, 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 liabilities

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.

Notes to the financial statements

at 31 December 2019

2. Summary of significant accounting policies (continued)

2.4 Significant accounting policies (continued)

Contract liabilities

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

Trade receivables

A trade receivable represents the Company's 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 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.

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.

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 Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component, the Company 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.

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.

Notes to the financial statements

at 31 December 2019

2. Summary of significant accounting policies (continued)

2.4 Significant accounting policies (continued)

Financial assets and financial liabilities (continued)

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 Company and generally applies to trade and other receivables and amounts owed by Group undertakings.

The Company 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 Company 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 Company applies a simplified approach in calculating ECLs (a lifetime ECL). Accordingly, the Company 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 Company's 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 Company's 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 2019

2. Summary of significant accounting policies (continued)

2.4 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 Company 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, payables, as appropriate.

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

The financial liabilities include trade and other payables.

Subsequent measurement

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

- Financial liabilities at fair value through profit or loss.

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 Company has not designated any financial liability as at fair value through profit or loss.

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 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.

Notes to the financial statements

at 31 December 2019

2. Summary of significant accounting policies (continued)

2.4 Significant accounting policies (continued)

Financial assets and financial liabilities (continued)

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 are charged 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.

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.

Notes to the financial statements

at 31 December 2019

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.

	2019 £000	2018 £000
Rendering of services	49,940	41,622
Turnover from continuing operations	<u>49,940</u>	<u>41,622</u>

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

An analysis of turnover by geographical market is shown below:

	2019 £000	2018 £000
United Kingdom	49,940	41,622
	<u>49,940</u>	<u>41,622</u>

4 Auditors remuneration

The Company paid the following amounts to its auditors in respect of the audit of financial statements.

	2019 £000	2018 £000
Audit of the financial statements	<u>20</u>	<u>20</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.

5 Staff costs and directors' remuneration

(a) Staff costs

	2019 £000	2018 £000
Wages and salaries	8,991	8,443
Social security costs	1,099	1,040
Staff pension contributions (note 12)	322	118
	<u>10,412</u>	<u>9,601</u>

Notes to the financial statements

at 31 December 2019

5 Staff costs and directors' remuneration (continued)

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

	2019 No.	2018 No.
Administration	18	18
Operations	142	162
	<u>160</u>	<u>180</u>

(b) Directors remuneration

The Company directors are also directors of fellow Group subsidiaries. The remuneration for D A Blackburn was paid in full by Petrofac Facilities Management Limited. The remuneration for R S McKnight, C W Thompson and N D Shorten was paid in full by Petrofac Services Limited. It is not considered practicable to allocate a charge for services provided during 2019 for the directors of this Company.

6 Interest receivable

	2019 £000	2018 £000
Other Group undertakings	210	175
Total interest receivable and similar income	<u>210</u>	<u>175</u>

7 Interest payable

	2019 £000	2018 £000
Bank interest	3	6
Total interest payable	<u>3</u>	<u>6</u>

8 Taxation

(a) Tax charge in the income statement

	2019 £000	2018 £000
<i>Current Income Tax:</i>		
Group relief payable	173	298
Total current income tax charge	<u>173</u>	<u>298</u>
<i>Deferred Tax:</i>		
Origination and reversal of temporary differences	5	(2)
Total deferred tax charge / (credit)	<u>5</u>	<u>(2)</u>
Tax charge in the income statement	<u>178</u>	<u>296</u>

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

Notes to the financial statements

at 31 December 2019

8. Taxation (continued)

(c) Reconciliation of the total tax charge

The tax expense in the income statement for the year is the same as the standard rate of corporation tax in the UK of 19% (2018: 19%). The differences are reconciled below:

	2019 £000	2018 £000
Profit before tax	942	1,560
Tax calculated at UK standard rate of corporation tax of 19% (2018: 19%)	179	296
Effect of change in tax rates	(1)	-
Total tax expense reported in the income statement	178	296

(d) Change in Corporation Tax rate

The standard rate of Corporation Tax in the UK for the year is 19% and will continue at this rate from 1 April 2020.

(e) Deferred tax

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

	2019 £000	2018 £000
<i>Deferred tax asset</i>		
Temporary differences	4	9
	4	9
<i>Disclosed on the balance sheet</i>		
Deferred tax asset	4	9
	4	9

The deferred tax was valued at 17% (2018: 17%).

9 Trade and other receivables

	2019 £000	2018 £000
Amounts owed by Group undertakings	41,583	39,189
Deferred tax	4	9
Other receivables	853	1,081
	42,440	40,279

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

Notes to the financial statements

at 31 December 2019

10 Trade and other payables: amounts falling due within one year

	2019 £000	2018 £000
Trade creditors	341	752
Amounts owed to Group undertakings	4,595	3,986
Other taxation and social security costs	225	170
Other creditors	68	102
Contract liabilities (note 11)	-	7
Group relief payable	471	671
Accruals and deferred income	3,766	2,226
	<u>9,466</u>	<u>7,914</u>

Petrofac Limited, the Company's ultimate parent company, has a bank facility with Citibank (2018: 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 2019 (2018: nil).

11 Contract Liabilities

	2019 £000	2018 £000
Advances received from customers	<u>-</u>	<u>7</u>

12 Pensions

The pension cost charge (note 5) represents contributions payable by the Company to the Group defined contribution scheme and employees' personal pension arrangements. Contributions totalling £25,000 (2018 – £15,000) were payable to the scheme at the year-end.

13 Allotted, called up and fully paid share capital

	2019 Number of shares 000	2018 Number of shares 000	2019 £000	2018 £000
<i>Allotted, called up and fully paid</i>				
19,000,200 ordinary shares of £1 each	<u>19,000</u>	<u>19,000</u>	<u>19,000</u>	<u>19,000</u>

Notes to the financial statements

at 31 December 2019

14 Ultimate Group undertaking

The Company is an immediate subsidiary undertaking of Petrofac Facilities Management Group Limited, a company incorporated in Scotland.

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, or can be downloaded at www.petrofac.com.

15 Post balance sheet events

During 2020, following the outbreak of COVID-19, the Company along with the wider oil industry has witnessed macro-economic uncertainty and the corresponding economic impact of the COVID-19 pandemic. The Company considers these events to be non-adjusting post balance sheet events. The scale and duration of these events remain uncertain but could impact the Company's earnings and cash flow. Given the inherent uncertainty caused by unprecedented external factors, it is not practicable at this time to determine the full impact on the Company.