

# **Proserv UK Limited**

## **Report and Financial Statements**

31 December 2018

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28/09/2019  
COMPANIES HOUSE

## **Company information**

### **Directors**

S R Cox (resigned 28 June 2019)

D J R Currie

D M Larssen

D T Lamont (resigned 14 May 2018)

### **Company Secretary**

D M Larssen

### **Corporate Secretary**

Blackwood Partners LLP

### **Auditors**

Ernst & Young LLP

Blenheim House

Fountainhall Road

Aberdeen AB15 4DT

### **Registered Office**

Blackwood House

Union Grove Lane

Aberdeen AB10 6XU

## Strategic report

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

### Business review

The downturn that impacted the company, and others across the industry, from 2014 onwards is gradually beginning to recede as the oil price finds some relative stability and traction above the \$60 a barrel plateau. Company revenues increased by 4% to £46,861k (2017 - 45,038k). The gross margin for the year increased to 19.6% (2017 - 14.6%), and the company maintained a pre-tax loss position, after impairment, of £14,213k (2017 - £14,005k). The company continues to review strategic options and pursue operational improvements, including a continued focus on staff development and Quality, Health, Safety and Environment (QHSE).

### Future developments

The directors are committed to the long-term fundamentals of the industry. To maximise opportunities to grow revenue further in 2019, the company is instigating a new five-year strategic plan geared towards refocusing the Company and Group on its core controls technology (refer to note 19).

### Principal risks and uncertainties

The company's activities expose it to a number of financial risks including cash flow and currency risk, credit risk and liquidity risk.

#### Cash flow and currency risk

The company's activities exposure is primarily to the financial risks of changes in foreign currency exchange rates. This is managed through the use of foreign currency bank accounts. The company does not use derivative financial instruments for speculative purposes.

#### Credit risk

The Company's credit risk relates primarily to its trade debtors and other receivables. The Company has a number of customers who are primarily either well established international or national companies, or joint ventures thereof. An evaluation is carried out of the credit risk of each new customer, and when appropriate, suitable protections put in place through the use of trade finance instruments. In addition to this, all customers are subject periodic review based on individual current trading circumstances.

On a continual basis, management review an aged debtor analysis and focus on debts which are overdue for payment. In addition, there is always a level of unbilled receivables which arise through certain contractual mechanisms and attention is also focused on getting these amounts billed to customers as quickly as possible.

The assessment of the exposure to the Company associated with the risk of default within financial assets is disclosed in note 13. This includes a table showing the ageing of trade receivables. This has assessment has been amended in 2018 to align to the application of new accounting standards (refer to note 1).

#### Liquidity risk

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the company uses a mixture of intra-group funding, short term bank finance and asset finance to fund capital expenditure.

## Strategic report (continued)

### Market risk

The company is directly affected by levels of activity and investment within the oil and gas industry. The level of activity is to a great extent dependant on the oil price which can be volatile. The company is continually assessing levels of investment and strategic global asset placement and addresses market challenges through:

- Best-in class services organisation
- A clear commitment to our people and their career growth
- Continued focus in brownfield market where Proserv has an excellent track record
- Focus on operational excellence
- Ongoing investment strategy
- Forming new alliances and partnerships
- Turning an industry challenge into an advantage

### Brexit risk

On 29 March 2017, the UK Government invoked Article 50 of the Treaty of Lisbon, notifying the European Council of its intention to withdraw from the European Union (the 'EU'). There is an initial two-year timeframe for the UK and EU to reach an agreement on the withdrawal and the future UK and EU relationship, although this timeframe has been extended. At this stage, there is significant uncertainty about the withdrawal process; its timeframe; and the outcome of the negotiations about the future arrangements between the UK and the EU.

As a result, there is significant uncertainty as to the period for which the existing EU laws for member states will continue to apply to the UK and which laws will apply to the UK after an exit. Following the negotiations between the UK and the EU, the UK's tax status may change and this may impact Proserv UK Limited. However, at this stage the level of uncertainty is such that it is impossible to determine if, how and when that tax status will change.

On behalf of the Board



Director  
Davis Larssen

27 September 2019

Registered No. SC122029

## Directors' report

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

### Results and dividends

The loss for the year after taxation amounted to £16,252k (2017 – £13,930k). The directors do not recommend a final dividend (2017 – £nil).

### Principal activities of the business

Proserv UK Limited is part of an international energy services Group specialising in the provision of life-of-field solutions for the Energy sector. The Company provides:

- **Drilling Systems and Services:** Proserv's suite of performance-critical and proven technologies and services for the drilling sector, has long been developed to improve safety, increase system reliability and reduce operational risks. For several decades, clients have put their trust in Proserv for the successful execution of projects on time, every time
- **Production Systems and Services:** Proserv specialises in the supply and service of a wide range of production technology equipment and services for use across the entire oilfield lifecycle. Engineering is the backbone of the company and, in keeping with the brand philosophy and values, Proserv are continually striving to develop ingeniously simple and fit-for-purpose technology solutions that increase performance and reliability
- **Subsea Production Systems and Services:** Proserv designs, manufactures and delivers innovative technologies designed for new field development, extension and optimisation. Through the advancement of R&D capabilities and the integration of market-leading technologies into the organisation, Proserv has become an emerging leader in the provision of subsea production solutions and services

### Going Concern

The Group (which the company is part of) closely monitors and manages its funding position and liquidity risk to ensure it has access to sufficient funds to meet cash requirements. Cash forecasts are produced on a regular basis, supported by a detailed, bottom up budget, which is approved by the board. The company has net liabilities at the year end. Proserv Group Parent LLC the ultimate parent company has confirmed that if required it will provide financial resources to enable the company to meet its liabilities as they fall due.

Due to the support of the Group, after making enquiries, the directors have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of 12 months from the date of approval of the accounts and therefore support the going concern basis.

### Employees

As part of the Proserv Group, the company places strong emphasis on employee involvement. Internal communication systems allow a free flow of information and ideas to all managers and staff throughout the Group. Employees are provided with information on matters of concern to them and views of employees are sought through the management structure.

The Group's Human Resources department is responsible for promoting Group-wide best practices. The Group endorses and supports the principles of equal employment opportunity. Although much of the company's work is unsuitable for disabled persons, disabled persons receive full and fair consideration for employment and subsequent training, career development and promotion on the basis of their aptitudes and abilities. Where existing employees become disabled, it is the Group's policy to provide continuing employment wherever practicable in the same or an alternative position and to provide appropriate training to achieve this aim. All employment decisions are made on a non-discriminatory basis.

## Directors' report (continued)

### Directors

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

S R Cox (resigned 28 June 2019)

D J R Currie

D M Larssen

D T Lamont (resigned 14 May 2018)

### Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

Ernst & Young LLP have expressed their willingness to continue in office as auditors.

On behalf of the Board



Director

Davis Larssen

27 September 2019

## Directors' Responsibilities Statement

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable 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 United Kingdom Generally Accepted Accounting Practice (FRS 101 – “Reduced Disclosure Framework”, 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 of the company 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 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 Proserv UK Limited**

We have audited the financial statements of Proserv UK Limited for the year ended 31 December 2018 which comprise of the Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and the related notes 1 to 19, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework".

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 loss 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 (continued)**

**to the members of Proserv UK Limited**

## **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 the 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.

# **Independent auditors' report (continued)**

**to the members of Proserv UK Limited**

## **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

27 September 2019

## Income statement

for the year ended 31 December 2018

		2018	2017
	Notes	£000	£000
<b>Revenue</b>	3	46,861	45,038
Cost of sales		<u>(37,679)</u>	<u>(38,449)</u>
<b>Gross Profit</b>		9,182	6,589
Administrative expenses		<u>(21,759)</u>	<u>(20,661)</u>
<b>Operating Loss</b>	4	(12,577)	(14,072)
Finance (Costs) / income	7	<u>(1,636)</u>	<u>67</u>
<b>Loss on ordinary activities before taxation</b>		(14,213)	(14,005)
Tax	8	<u>(2,039)</u>	<u>75</u>
<b>Loss for the financial year</b>		<u><u>(16,252)</u></u>	<u><u>(13,930)</u></u>

All amounts relate to continuing activities.

## Statement of comprehensive income

for the year ended 31 December 2018

There are no recognised gains or losses other than the loss attributable to the shareholders of the company of £16,252k in the year ended 31 December 2018 (2017 – £13,930k).

## Statement of financial position

at 31 December 2018

	Notes	2018 £000	2017 £000
<b>Non-current assets</b>			
Intangible assets	9	2,132	10,774
Tangible assets	10	13,482	14,194
Trade and other receivables	13	46,998	14,966
Deferred tax asset	8	–	2,332
Investments	11	6,019	6,019
		<u>68,631</u>	<u>48,285</u>
<b>Current assets</b>			
Inventories	12	6,444	6,143
Trade and other receivables	13	27,863	59,639
Deferred tax asset		–	–
Cash at bank and in hand		2,421	1,193
		<u>36,728</u>	<u>66,975</u>
<b>Total assets</b>		<u>105,359</u>	<u>115,260</u>
<b>Capital and reserves</b>			
Called up share capital	15	1	1
Profit and loss account		<u>(19,972)</u>	<u>(3,720)</u>
<b>Shareholders' deficit</b>		<u>(19,971)</u>	<u>(3,719)</u>
<b>Current liabilities</b>			
Trade and other payables	14	22,965	31,800
Short term financial liabilities	14	–	300
		<u>22,965</u>	<u>32,100</u>
<b>Non-current liabilities</b>			
Long term financial liabilities	14	102,365	86,879
<b>Total liabilities</b>		<u>125,330</u>	<u>118,979</u>
<b>Total equity and liabilities</b>		<u>105,359</u>	<u>115,260</u>

The financial statements of Proserv UK Limited (registered number: SC122029) were approved by the Board of Directors and signed on its behalf by:



Director  
Davis Larssen  
27 September 2019

## Statement of changes in equity

for the year ended 31 December 2018

	<i>Share capital</i> £000	<i>Profit and loss account</i> £000	<i>Total equity / (deficit)</i> £000
<b>At 1 January 2017</b>	1	10,210	10,211
Loss for the financial year	–	(13,930)	(13,930)
<b>At 31 December 2017</b>	1	(3,720)	(3,719)
Loss for the financial year	–	(16,252)	(16,252)
<b>At 31 December 2018</b>	1	(19,972)	(19,971)

## Notes to the financial statements

at 31 December 2018

### 1. Accounting policies

#### *Basis of preparation*

The financial statements are prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and the Companies Act 2006.

FRS 101 sets out a reduced disclosure framework for “qualifying entities”. Proserv UK Limited is a qualifying entity for the purposes of FRS 101, per the definition provided in “the Standard”. Note 18 gives details of the Company’s ultimate parent and from where the consolidated financial statements can be obtained.

The financial statements contain information about Proserv UK Limited as an individual company and do not contain consolidated financial statements as the parent of a Group. The company is exempt under section 401 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its ultimate parent, Proserv Group Parent LLC, a company registered in the United States of America.

The financial statements are prepared on a going concern basis. The directors, have a reasonable expectation that the Group (which the company is part of) will be able to continue in operation and meet its liabilities as they fall due over the period of 12 months from the date of approval of the accounts and therefore support the going concern basis. The directors have continued to use the going concern basis as the ultimate parent Proserv Group Parent LLC, has agreed to provide financial support to the company to assist it in meeting its liabilities as and when they fall due, to the extent that money is not otherwise available to the company to meet such liabilities, for a period of twelve months from the date of approval of the balance sheet.

Management assess the ability to continue as a going concern utilising budgets, which forecast a period of 3 years into the future.

The company is a limited company, incorporated in the UK, with principal place of business at Skene Facility, Enterprise Drive, Westhill, Aberdeen, AB32 6TQ, 4, Greenbank Place, East Tullos, Aberdeen, AB12 3BT, and Artemis House, Gawain Road, Beacon Park, Gorleston, Great Yarmouth, Norfolk NR31 7DU. The company’s functional and presentational currency is Great British Pound (GBP). All values are rounded to the nearest thousand (£000) unless otherwise stated.

#### *Disclosure exemption*

The application of FRS 101 has enabled the Company to take advantage of certain disclosure exemptions that would have been required if the Company had opted to implement International Financial Reporting Standards in full.

The exemptions that apply to the Company are as follows:

- IAS 1, IAS 16 & IAS 38 – the requirement for comparatives to be presented between the preceding and current periods for share capital, property, plant and equipment and intangible assets
- IAS 1 – the requirement to disclose information on capital and how it is managed
- IAS 1 – the requirement to provide a balance sheet as at the beginning of the preceding period if there is a prior year adjustment
- IAS 7 – the requirement to present a Statement of Cash Flows
- IAS 8 – the requirement to analyse effects of standards that are issued but not effective
- IAS 24 – the requirement to provide information in regards key management personnel compensation
- IAS 24 – the requirement to disclose related party transactions with two or more members of a Group if wholly owned subsidiaries
- IAS 36 – the requirement to disclose information on estimates used to calculate recoverable amounts of intangible assets and goodwill with infinite useful lives
- IFRS 7 – the requirement to disclose information on financial instruments

These financial statements have adopted the disclosure requirements arising from adoption of SI 2015 No. 980.

## Notes to the financial statements

at 31 December 2018

### 1. Accounting policies (continued)

#### **Goodwill**

Proserv UK Limited uses the purchase method of accounting to account for acquisitions. Goodwill represents the excess of the cost of an acquisition over the fair value of the net assets acquired. Goodwill is carried at cost less accumulated impairment losses.

To overcome the prohibition of the Companies Act the Company has applied a true and fair override in relation to the non-amortisation of goodwill. Under IFRS 3 Business Combinations, goodwill is not amortised but is reviewed for impairment on an annual basis or whenever there are indicators of impairment. This is a departure from the requirements of the Companies Act 2006, which requires goodwill to be amortised over its useful economic life. The departure is necessary in order to comply with the requirements of IFRS 3. The company is therefore invoking a true and fair view override to overcome the prohibition on the non-amortisation of goodwill in the Companies Act. If goodwill had been amortised, a period of 20 years would have been chosen as its useful economic life. Loss for the year would have been £799k higher had goodwill been amortised on this basis.

#### **Intangible fixed assets**

Intangible assets are recognised if it is probable that there will be future economic benefits attributable to the asset, the cost of the asset can be measured reliably, the asset is separately identifiable and there is control over the use of the asset. Where the company acquires a business, other intangible assets such as customer contracts are identified and evaluated to determine the carrying value on the acquisition balance sheet.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over their estimated useful lives with the amortisation method for an intangible asset with a finite useful life being reviewed at least at the end of each reporting period:

Software      4 years

#### **Tangible fixed assets**

Tangible fixed assets are stated at cost less depreciation.

Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives on the following bases:

Land, buildings and leasehold improvements	–	2 – 50 years
Rental assets and plant and equipment	–	2 – 10 years
Machinery, fixtures, fittings and IT equipment	–	2 – 5 years
Motor vehicles	–	2 – 5 years

#### **Impairment**

The company performs impairment reviews annually in respect of PP&E, goodwill and other intangible assets and whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. In addition, the company carries out annual impairment reviews in respect of goodwill as described below. An impairment loss is recognised when the recoverable amount of an asset, which is the higher of the asset's fair value less costs to sell and its value in use, is less than its carrying amount.

For the purposes of impairment testing, assets are allocated to the appropriate cash generating unit ('CGU'). The CGUs are aligned to the structure the Group uses to manage its business. The estimated future cash flows are discounted in determining the value in use.

#### **Investments**

Investments held as fixed assets are shown at cost less provision for impairment.

## Notes to the financial statements

at 31 December 2018

### 1. Accounting policies (continued)

#### **Stocks**

Stocks and work in progress are valued at the lower of cost and net realisable value after making due allowance for obsolete and slow-moving stocks. Cost includes all direct costs and an appropriate proportion of fixed and variable overheads.

#### **Foreign currencies**

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate ruling on the date of the transaction. Exchange gains and losses are recognised in the income statement.

#### **Revenue recognition**

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is stated net of sales taxes (such as VAT) and discounts.

Revenue recognition is based on the existence of a valid contract, the determination and allocation of performance obligations and the transaction price of the services, and the satisfaction of the performance obligations contained in the contract. Revenue is recognised when or as the performance obligations are satisfied. Within the Company performance obligations are generally satisfied over time with some exceptions. Variable consideration is recognised at the point in time that it is probable that significant revenue reversal will not occur.

Revenue on lump-sum contracts for services, construction contracts and fixed price long term service agreements is recognised according to the percentage of completion reached in the contract by measuring the proportion of costs incurred for work performed to total estimated costs. An estimate of the profit attributable to work completed is recognised once the outcome of the contract can be estimated reliably. Expected losses are recognised in full in the income statement as soon as losses are probable and disclosed as a provision in current liabilities within the balance sheet. The net amount of costs incurred to date plus recognised profits less the sum of recognised losses and progress billings is disclosed as trade receivables/trade payables.

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Company adopted IFRS 15 using the modified retrospective method of adoption. The effect of the transition on the current period has not been disclosed as the standard provides an optional practical expedient.

The adoption of IFRS 15 did not have a material impact on other comprehensive income or the Company's operating, investing and financing cash flows.

#### **Taxation**

Current tax, including UK Corporation tax and foreign tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less or to receive more, tax, with the following exception:

- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.



## Notes to the financial statements

at 31 December 2018

### 1. Accounting policies (continued)

#### *Taxation (continued)*

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

#### *Leasing and hire purchase commitments*

Assets obtained under hire purchase contracts and finance leases are capitalised as tangible fixed assets. Assets acquired by finance lease are depreciated over the shorter of the lease term and their useful lives. Assets acquired by hire purchase are depreciated over their useful lives. Finance leases are those where substantially all of the benefits and risks of ownership are assumed by the company. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the income statement so as to produce a constant periodic rate of charge on the net obligation outstanding in each period.

Rentals under operating leases are charged to the income statement on a straight line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the period until the date the rent is expected to be adjusted to the prevailing market rate.

#### *Pensions*

The company operates a defined contribution pension scheme and the pension charge represents the amounts payable by the company to the fund in respect of the year.

#### *Government grants*

Government grant income received to compensate the cost of an asset are deducted from the cost of the related asset.

#### *Finance expense/income*

Interest income and expense is recorded in the income statement in the period to which it relates.

#### *Cash and cash equivalents*

Cash and cash equivalents include cash in hand and other short-term bank deposits with maturities of three months or less.

#### *Financial assets and financial liabilities*

The company's financial assets include cash and cash equivalents, trade and other receivables and loans and other receivables.

Trade receivables are recognised initially at fair value. The implementation of IFRS 9 resulted in a change from an incurred loss impairment model to an expected credit loss (ECL) impairment model and required the Company to record allowances for expected credit losses. The expected credit loss model applies to all debt financial assets accounted for in accordance with IFRS 9. The expected credit loss impairment model is also applied to contract assets accounted for under IFRS 15 'Revenue from Contracts with Customers'.

For contract assets and trade and other receivables which do not contain a significant financing component, the Company applies the simplified approach. This approach requires the allowance for expected credit losses to be recognised at an amount equal to lifetime expected credit losses.

The Company assesses at each reporting date whether any indicators exist that a financial asset or group of financial assets has become credit impaired. Where an asset is considered to be credit impaired a specific allowance is recognised based on the actual cash flows that the Company expects to receive and is determined using historical credit loss experience and forward-looking factors specific to the counterparty and the economic environment. Any shortfall is discounted at the original effective interest rate for the relevant asset.

## Notes to the financial statements

at 31 December 2018

### 1. Accounting policies (continued)

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

The Company considers credit risk on a case-by-case basing historical and forward looking information including macro-economic factors. 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.

Loans and other receivables with fixed or determinable payments are measured at costs and are subsequently stated at amortised cost. Any interest is included as finance income in the income statement.

The company's financial liabilities include trade and other payables and loans and other payables.

Trade, loan and other payables are recognised initially at fair value and subsequently measured at amortised cost.

### 2. Significant accounting estimates and assumptions

#### *Impairment of goodwill and intangible assets*

Impairment exists when the carrying value of a cash generating unit exceeds its recoverable amount, which is its value in use. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the company is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different cash generating units, include a detailed sensitivity analysis.

#### *Revenue recognition*

Revenue on lump sum contracts for services, construction contracts and fixed price long term service agreements is recognised according to the percentage of completion reached in the contract by measuring the proportion of costs incurred for work performed to total estimated costs. Use of the percentage of completion method requires the use of estimates in assessing the stage of completion reached.

#### *Recoverability of receivables*

The company extends credit to its customers based on an evaluation of the customer's financial condition. Outstanding accounts receivable are assessed routinely and an allowance is established surrounding uncertainty of collectability. In the current period the methodology applied to assess risk of default has changed under IFRS 9 from a specific bad debt provision to an expected credit loss allowance.

#### *Useful economic lives of intangible and tangible fixed assets*

Intangible and tangible fixed assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

#### *Cost of inventories*

Inventories are valued at the lower of cost and net realisable value. Cost is determined by utilising standard costing techniques, adjusted, where appropriate, to actual costs incurred based on variance analysis. Net realisable value is the estimated selling price, less relevant completion and selling costs. The company reviews periodically the provision applied to inventory, which makes an allowance for obsolete and slow-moving items, based upon annual usage.

## Notes to the financial statements

at 31 December 2018

### 3. Revenue

Revenue, which is stated net of value added tax, represents amounts invoiced and accrued for work performed in the period.

The revenue and pre-tax loss is attributable to continuing activities.

Analysis of revenue by geographical market comprises:

	2018 £000	2017 £000
UK	21,375	25,393
Norway	10,856	6,293
Rest of the World	14,630	13,352
<b>Total Revenue</b>	<b>46,861</b>	<b>45,038</b>

### 4. Operating loss

This is stated after charging / (crediting):

	2018 £000	2017 £000
Auditors' remuneration	84	94
Depreciation of tangible fixed assets – Owned by the company	3,305	3,647
Net foreign exchange gains	(3,414)	(291)
Amortisation – intangible fixed assets	–	827
Research and development costs	–	1,063
Provision for impairment of inventories	–	118
Provision for impairment of investment in subsidiaries	30	858
Provision for impairment intangible assets	8,642	–
Expected credit loss allowance	732	–
Gain on sale of fixed assets	(65)	(97)
Operating lease rentals – plant and machinery	2,540	2,560
– Other operating leases	29	40

## Notes to the financial statements

at 31 December 2018

### 5. Directors' remuneration

	2018 £000	2017 £000
Remuneration	–	870
Company contributions paid to defined contribution pension schemes	–	23

During the year retirement benefits were accruing to 0 directors (2017 – 3) in respect of defined contribution pension schemes.

In respect of the highest paid director:

	2018 £000	2017 £000
Remuneration	–	369

The directors are employed by and receive remuneration from other Group companies. The directors received total remuneration for the year of £2,198k (2017 - £870k). In the opinion of the directors it is not possible to apportion the directors' remuneration to subsidiaries on the basis of level of service and accordingly no allocation has been made.

### 6. Staff costs

	2018 £000	2017 £000
Wages and salaries	21,856	26,079
Social security costs	2,582	3,163
Other pension costs	1,178	1,357
	<u>25,616</u>	<u>30,599</u>

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

	No.	No.
Management and administration	140	183
Operations	<u>345</u>	<u>423</u>
	<u>485</u>	<u>606</u>

### 7. Finance income (net)

	2018 £000	2017 £000
Net intercompany interest income / (cost)	141	(35)
Finance charges payable under finance leases	(13)	(26)
Other finance income / (cost)	<u>(1,764)</u>	<u>128</u>
	<u>(1,636)</u>	<u>67</u>

## Notes to the financial statements

at 31 December 2018

### 8. Tax

(a) Tax on loss on ordinary activities

The tax credit is made up as follows:

	2018 £000	2017 £000
<b>Current tax:</b>		
UK corporation tax on the loss for the year	–	–
Adjustments in respect of prior periods	–	387
	–	387
Double taxation relief	–	–
	–	387
Foreign tax on income for the year	91	315
Adjustments in respect of prior periods	(383)	–
Total tax charge	(292)	702
<b>Deferred tax:</b>		
Origination and reversal of timing differences	2,253	(610)
Effect of tax rate change on opening balances	–	–
Adjustment regarding prior periods	78	(167)
Total deferred tax charge / (credit) (note 8 (c))	2,331	(777)
Total tax charge / (credit) on loss on ordinary activities	2,039	(75)

(b) Factors affecting tax charge for the year

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 19% (2017 – 19.25%). The differences are explained below:

	2018 £000	2017 £000
Loss on ordinary activities before tax	(14,213)	(14,005)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2017 – 19.25%)	(2,700)	(2,696)
<b>Effects of:</b>		
Expenses not deductible for tax purposes	1,884	322
Fixed asset differences	–	36
Adjustments to tax charge in respect of prior periods	(305)	220
Group relief surrendered	60	659
Other timing differences	(17)	(61)
Irrecoverable overseas tax	91	315
Deferred tax not recognised	2,940	927
Adjustments to tax rates for average rate	86	203
Total tax for the year (note 8(a))	2,039	(75)

## Notes to the financial statements

at 31 December 2018

### 8. Tax (continued)

On 29 March 2017, the UK Government invoked Article 50 of the Treaty of Lisbon, notifying the European Council of its intention to withdraw from the European Union (the 'EU'). There is an initial two-year timeframe for the UK and EU to reach an agreement on the withdrawal and the future UK and EU relationship although this timeframe has been extended. At this stage, there is significant uncertainty about the withdrawal process; its timeframe; and the outcome of the negotiations about the future arrangements between the UK and the EU.

As a result, there is significant uncertainty as to the period for which the existing EU laws for member states will continue to apply to the UK and which laws will apply to the UK after an exit. Following the negotiations between the UK and the EU, the UK's tax status may change and this may impact the Company. However, at this stage the level of uncertainty is such that it is impossible to determine if, how and when that tax status will change.

#### (c) Deferred tax asset

	2018 £000	2017 £000
At beginning of year	2,332	1,555
Charge for year	(2,332)	777
At end of year	<u>–</u>	<u>2,332</u>

The deferred tax asset is made up as follows:

	2018 £000	2017 £000
Accelerated capital allowances	–	1,755
Other timing differences	–	577
	<u>–</u>	<u>2,332</u>

### 9. Intangible fixed assets

	Goodwill £000	Other intangibles £000	Total £000
Cost:			
At 1 January 2018	15,966	5,209	21,175
Additions	–	–	–
At 31 December 2018	<u>15,966</u>	<u>5,209</u>	<u>21,175</u>
Accumulated amortisation and impairment losses:			
At 1 January 2018	5,192	5,209	10,401
Charge for the year	–	–	–
Provision for impairment	8,642	–	8,642
At 31 December 2018	<u>13,834</u>	<u>5,209</u>	<u>19,043</u>
Net book value:			
At 31 December 2018	<u>2,132</u>	<u>–</u>	<u>2,132</u>
At 1 January 2018	<u>10,774</u>	<u>–</u>	<u>10,774</u>

Goodwill has arisen related to its own operations as a result of previous legal entity rationalisation.

# Notes to the financial statements

at 31 December 2018

## 10. Tangible fixed assets

	<i>Land &amp; buildings</i>	<i>Plant &amp; equipment</i>	<i>Rental assets</i>	<i>Fixtures, fittings &amp; IT equipment</i>	<i>Leasehold improvements</i>	<i>Assets under construction</i>	<i>Total</i>
	£000	£000	£000	£000	£000	£000	£000
Cost:							
At 1 January 2018	2,047	2,777	18,954	4,360	1,112	1,306	30,556
Additions	–	706	1,180	49	194	1,699	3,828
Disposals	–	–	(2,318)	–	(284)	–	(2,602)
Transfers	–	–	2,375	–	–	(2,375)	–
At 31 December 2018	2,047	3,483	20,191	4,409	1,022	630	31,782
Depreciation:							
At 1 January 2018	90	2,688	10,907	2,216	461	–	16,362
Charge for the year	46	548	2,203	311	197	–	3,305
Disposals	–	–	(1,083)	–	(284)	–	(1,367)
At 31 December 2018	136	3,236	12,027	2,527	374	–	18,300
Net book value:							
At 31 December 2018	1,911	247	8,164	1,882	648	630	13,482
At 1 January 2018	1,957	89	8,047	2,144	651	1,306	14,194

The net book value of assets held under finance leases or hire purchase contracts, included above, are as follows:

	2018 £000	2017 £000
Plant and machinery	619	938

The net book value of land and buildings comprises:

	2018 £000	2017 £000
Freehold	1,480	1,517
Long leasehold	431	440
	1,911	1,957

## Notes to the financial statements

at 31 December 2018

### 11. Investments

	<i>Subsidiary companies £000</i>
Cost:	
At 1 January 2018 and 31 December 2018	6,019
Additions	30
Provision for impairment 2018	(30)
Net book value:	
At 31 December 2018	6,019
At 1 January 2018	6,019

The following are the interests of the company:

<i>Name</i>	<i>Registered address</i>	<i>Country of incorporation (if outside the UK)</i>	<i>Class of shares</i>	<i>Holding</i>
KRG Industries Limited	Blackwood House, Union Grove Lane, Aberdeen, AB10 6XU		Ordinary shares	100%
MCE Receivables Limited*	Blackwood House, Union Grove Lane, Aberdeen, AB10 6XU		Ordinary shares	100%
Proserv Properties Limited	Blackwood House, Union Grove Lane, Aberdeen, AB10 6XU		Ordinary shares	100%
Scotech International Services Limited	Blackwood House, Union Grove Lane, Aberdeen, AB10 6XU		Ordinary shares	100%
Proserv Instrumentation (Nigeria) Limited	13 Sumbo Jibowu Street Ikoyi Lagos Nigeria	Nigeria	Ordinary shares	49%
Proserv India Oil & Gas Solutions LLP**	Suri & Co., Chartered Accountants, No 4 (Old No 55A), Chevalier Sivaji Ganesan Salai, South Boag Road, Thyagaraya Nagar, Chennai 600017, Tamil Nadu – Chennai	India	Ordinary shares	50%
Pneu Hydro de Mexico, S. de R. L. de CV**	Bosque de Ciruelos No. 180 PP, Bosques de las Lomas, Mexico City, Mexico, 11700	Mexico	Ordinary shares	10%

\*investment held indirectly via other subsidiaries in the Group.

\*\*investment held 100% by the Group via sister company Proserv Operations Limited

In 2018, actions have been taken to dissolve the following dormant subsidiaries: Proserv Properties Limited and Scotech International Services Limited.



## Notes to the financial statements

at 31 December 2018

### 12. Inventories

	2018 £000	2017 £000
Raw material	1,053	626
Work in progress	1,065	583
Finished goods and goods for resale	4,326	4,934
	<u>6,444</u>	<u>6,143</u>

### 13. Trade and other receivables

	2018 £000	2017 £000
Trade receivables	6,858	8,788
Less: provision for impairment of trade receivables	–	(686)
Expected credit loss allowance	–	–
Trade receivables - net	<u>6,858</u>	<u>8,102</u>
Amounts owed by group undertakings – due after more than one year	46,998	14,966
Amounts owed by group undertakings – due within one year	15,831	47,365
Less: expected credit loss allowance	(732)	–
	<u>62,097</u>	<u>62,331</u>
Corporation tax receivable	186	–
Other taxes receivable	–	89
Other debtors	398	516
Prepayments and accrued income	2,297	2,060
Sales in excess of billings	3,025	1,507
	<u>74,861</u>	<u>74,605</u>

The ageing analysis of the trade receivables balance is as follows:

	2018 £000	2017 £000
Less than 30 days past due	5,553	8,034
Between 30 and 60 days past due	1,040	543
Between 60 and 90 days past due	172	211
Past due more than 90 days	93	–
Total trade receivables	<u>6,858</u>	<u>8,788</u>

	2018 £000	2017 £000
Contract assets	3,025	1,507
Contract liabilities	(881)	(574)
At 31 December	<u>2,144</u>	<u>933</u>

## Notes to the financial statements

at 31 December 2018

### 13. Trade and other receivables (continued)

	2018 £000	2017 £000
Contract costs incurred plus recognised net profits less recognised loss to date	22,447	42,803
Less: Progress billings	(20,304)	(41,870)
	<u>2,143</u>	<u>933</u>

Revenue from percentage of completion contracts in the year was £13,621k (2017 - £16,813k).

### 14. Trade and other payables

	2018 £000	2017 £000
Net obligations under finance leases and hire purchase contracts	–	300
Trade creditors	4,393	4,103
Amounts owed to group undertakings	13,435	22,783
Other taxes and social security costs	644	780
Corporation tax payable	–	237
Other creditors	1,688	1,538
Accruals and deferred income	1,924	1,785
Billings in excess of sales	881	574
<b>Amounts falling due within one year</b>	<u>22,965</u>	<u>32,100</u>
Net obligations under finance leases and hire purchase contracts	375	375
Amounts owed to group undertakings	101,990	86,504
<b>Amounts falling due after more than one year</b>	<u>102,365</u>	<u>86,879</u>
<b>Total trade and other payables</b>	<u>125,330</u>	<u>118,979</u>

The company and certain of its subsidiaries are guarantors for the Group's debt facilities. Security has been granted by the company and certain of its subsidiaries for that debt in the form of fixed and floating charges over their assets, depending on the jurisdiction.

### 15. Issued share capital

	No.	2018 £000	No.	2017 £000
<i>Allotted, called up and fully paid</i>				
Ordinary shares of £1 each	1,000	<u>1</u>	1,000	<u>1</u>

## Notes to the financial statements

at 31 December 2018

### 16. Operating lease commitments – minimum lease payments

At 31 December 2018 the company had annual commitments under non-cancellable operating leases as set out below:

	2018	2018	2017	2017
	<i>Land and</i>	<i>Other</i>	<i>Land and</i>	<i>Other</i>
	<i>buildings</i>		<i>buildings</i>	
	£000	£000	£000	£000
Operating leases which expire:				
Within one year	1,191	21	2,571	27
In two to five years	6,179	50	4,598	19
Over five years	9,556	–	10,602	–
	<u>16,926</u>	<u>71</u>	<u>17,771</u>	<u>46</u>

### 17. Pension contributions

The company makes contributions to defined contribution pension plans on behalf of certain employees. The pension cost charge represents contributions payable by the company to the fund. The contributions payable by the company for the year were £1,178k (2017 – £1,357k). The outstanding contributions payable at year end were £162k (2017 – £199k).

### 18. Ultimate parent undertaking and controlling party

The company is a wholly owned subsidiary of Proserv Operations Limited.

The ultimate parent company as at 31 December 2018 is Proserv Group Parent LLC, a company registered in the United States of America with its address at CT Corporation Trust Company, 1209 Orange St, Wilmington, Delaware 19801. Proserv Group Parent LLC consolidated financial statements are available upon request at the above address.

The ultimate controlling undertaking as at 31 December 2018 was shared between KKR Asset Management LLC and OakTree Capital Management LLP by virtue of their majority shareholding in Proserv Group Parent LLC.

### 19. Post balance sheet events

As described in the strategic report, the Company and Group have made a number of strategic decisions post year end:

On 31 January 2019, Proserv UK Limited purchased Stephen Gillespie Consultants Limited (SC109198) for an initial consideration of £1.1m to enhance the Company's offering across in Production Systems and Services.

As a key part of the new five-year strategic plan, non-core assets have been divested. Three divestments featuring the disposal of £11.9m of fixed assets and inventory have concluded impacting the Company's operations, occurring on 05 February 2019, 28 June 2019 and 01 August 2019. The initial consideration received was £14.97m.

In addition, Proserv Instrumentation Nigeria Limited, a subsidiary of Proserv UK Limited, was sold on 28 August 2019.