

The Penspen Group Limited

Parent: PPS For  
2392093  
Manchester Jetline Limited

The Penspen Group Limited  
Report and Consolidated Financial Statements  
31 December 2016  
Registered Number 00980600

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## **The Penspen Group Limited**

### **Company Information**

#### **Directors**

T Shair  
P O'Sullivan  
D Aoun  
G A Empringham

#### **Secretary**

S McDonald

#### **Auditors**

Ernst & Young LLP  
1 More London Place  
London SE1 2AF

#### **Bankers**

Europe Arab Bank Plc  
P O Box 138  
15 Moorgate  
London EC2R 6LP

#### **Registered Office**

3 Water Lane  
Richmond upon Thames  
Surrey TW9 1TJ

## Strategic report

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

### Principal activities

The principal activity of the company is that of a holding company. The business of the group is that of providing engineering, project management, and asset management and integrity services to the energy sector and the operation of a pipeline supplying fuel to Manchester Airport.

### Review of the business and future developments

In common with other operators in the oil and gas sector, the group experienced a very challenging year in 2016, with reduced turnover across many of its markets. As a result, the group recorded a loss before taxation of £8.9m (2015: loss of £11.2m). After recognising a fair value adjustment relating to the carrying value of Freehold property in Richmond and the Manchester Jetline pipeline of £19.7m net of taxes, an actuarial loss on the defined benefit pension scheme of £9.4m and foreign exchange revaluation losses of £1.5m, the group's equity attributable to equity holders of the parent decreased to £2.4m at the end of 2016 (2015: £3.4m).

Capital investment in the oil and gas sector during the year continued to be depressed as oil prices have not recovered to levels which make new investment attractive to oil and gas operators. This continues to be the main impediment to our business growth as demand for our traditional services of engineering consultancy and design has declined significantly. In light of this, management has changed its strategic focus to growing its business in providing clients with asset management and integrity services, which are less impacted by oil price volatility and are designed to provide the company with growth in the mid to long term.

The group remains a leading provider in its business areas and its expertise and ability has led to clients placing several medium to long term contracts despite the current market conditions. The group now operates a number of large contracts with terms of 3 to 5 years and the largest opportunities it is currently pursuing are large multi-year contracts which, if secured, will provide a stable base of cash flow for the company. There is however a relatively long lead time to securing these contracts and this limits its ability to respond to market changes more quickly.

The group has refocused its global footprint on its most promising markets, and has closed several offices where local markets could not provide sustainable revenues. This has enabled it to reduce both regional and corporate overheads with the goal of improving profitability. The group's strategy for growth continues to be a two-pronged approach: to develop closer, more strategic relationships with clients in our target countries, and to focus on services for which there is greatest demand in the current market, e.g. midstream engineering design and consultancy, and onshore and offshore asset management and integrity services. It will also consider the acquisition of companies offering services that complement the group's current capabilities and deliver economies of scale in its target markets.

### Principal Risks and Uncertainties

The company has experienced significant losses in recent years and increased its external and inter-company borrowings. However its ultimate parent has confirmed its ongoing financial support for a period of at least 18 months from the date of approval of the financial statements.

Key internal risks for the group include the ability to attract and retain quality employees and to perform and deliver contracted services in accordance with the requirements of its clients. The group thus focuses strongly on its employees, offering many competitive benefits, such as flexible working, a staff bonus scheme and a flexible benefits scheme.

To ensure quality delivery of projects and the management of project delivery risk, the group has rigorous processes of project and quality review and management of project teams. In addition, the group invests in technical and personal training and development of its employees and regularly reviews each individual's training requirements.

Credit risk representing non-payment or late/part payment by clients continues to be a major risk for the group. The group operates processes to ensure regular liaison with clients to manage invoicing and collection and to resolve any matters delaying receipts.

External risks for the group come from competitor pressure and the availability of projects from clients. The group undertakes various cost efficiency measures to control its costs and maximise its manpower utilisation by executing projects, where applicable, jointly across the regions.

By order of the Board



P O'Sullivan

Director

29 September 2017

# The Penspen Group Limited

## Directors' report

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

### Results and dividends

Details of the results for the year are set out in the consolidated income statement on page 8.

The group's loss for the year after taxation and minority interests was £9.8m (2015: £11.2m).

As recorded in note 18 to the financial statements, the holders of the 13% cumulative preference shares have agreed to waive the dividends due to them.

The Company has written off investment of £32,646k during the year.

The directors are unable to recommend the payment of a dividend on the ordinary shares (2015: £Nil).

### Directors

The directors who served during the year ended 31 December 2016 and up to the date of this report were as follows:

- P O'Sullivan
- T Shair
- D Aoun
- C F Williams (appointed 6 January 2016 and resigned 12 December 2016)
- G A Empringham (appointed 12 December 2016)

### Going Concern

The group has experienced significant losses in recent years and increases in external and inter-company borrowings. The directors note that the company has access to the significant financial resources of its ultimate parent undertaking. The ultimate parent has confirmed its ongoing financial support in writing for a period of at least 18 months from the date of approval of the financial statements. This support includes, if and when required, a specific commitment in respect of expected cash outflows for loan repayments to external third parties and commitments in respect of defined benefit scheme pension obligations. On the basis of the directors' assessment of the company's financial position therefore, they have a reasonable expectation that the company will be able to continue in operational existence for the foreseeable future and continue to adopt the going concern basis of accounting in preparing the annual financial statements.

### 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 they are obliged to take as a director in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

### Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the group continues and that appropriate training is arranged. It is the policy of the group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

### Employee consultation

The group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the group. This is achieved through formal and informal meetings. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests.

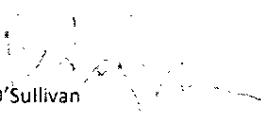
### Indemnity provision

The company has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in s234 of the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report.

### Auditors

In accordance with s.485 of the Companies Act 2006, Ernst & Young LLP has been deemed reappointed as auditors of the company.

By order of the Board

  
P O'Sullivan  
Director

29 September 2017

## **Statement of directors' responsibilities in respect of the financial statements**

The directors are responsible for preparing the Strategic Report, Directors' Report and the Group financial statements in accordance with applicable United Kingdom law and regulations. Company law requires the directors to prepare Group financial statements for each financial year. Under that law, the directors are required to prepare Group financial statements under IFRSs as adopted by the European Union.

Under Company Law the directors must not approve the Group financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the Company and of the profit or loss of the Group for that period. In preparing the Group financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable IFRS as adopted by European Union 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 Group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the Group financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and 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 The Penspen Group Limited*

We have audited the financial statements of The Penspen Group Limited and its subsidiaries for the year ended 31 December 2016 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Statements of Financial Position, the Consolidated and Parent Company Statements of Changes in Equity, the Consolidated and Parent Company Statements of Cash Flows, and the related notes 1 to 24. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

**Respective responsibilities of directors and auditor**

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

**Scope of the audit of the financial statements**

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

**Opinion on financial statements**

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2016 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

**Opinion on other matter prescribed by the Companies Act 2006**

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

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

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

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

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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.



Adrian Mulea (senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
London

29 SEPTEMBER 2017

# The Penspen Group Limited

Consolidated income statement  
for the year ended 31 December 2016

		2016	2015
	Notes	£'000	£'000
<b>Continuing operations</b>			
Sale of goods and services	6	71,935	98,594
<b>Revenue</b>		<u>71,935</u>	<u>98,594</u>
Cost of sales		(50,024)	(73,739)
<b>Gross profit</b>		<u>21,911</u>	<u>24,855</u>
Administrative expenses	7	(30,993)	(35,840)
Selling and distribution expenses		(101)	(59)
Other operating income		188	223
Revaluation gain on investment property	11	567	-
<b>Operating loss</b>	8	<u>(8,428)</u>	<u>(10,821)</u>
Finance costs	8	(498)	(365)
<b>Loss on ordinary activities before tax</b>		<u>(8,926)</u>	<u>(11,186)</u>
Income tax expense	9	(837)	(111)
<b>Loss for the financial year</b>		<u>(9,763)</u>	<u>(11,297)</u>
Attributable to:			
Equity holders of the parent		(9,765)	(11,297)
Non-controlling interests		2	79
		<u>(9,763)</u>	<u>(11,218)</u>



## The Penspen Group Limited

### Consolidated statement of comprehensive income for the year ended 31 December 2016

		2016	2015
	Notes	£'000	£'000
Loss for the year		<u>(9,763)</u>	<u>(11,218)</u>
Other comprehensive income/(loss)			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>			
Exchange differences on translation of foreign operations		(1,463)	(20)
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods:</i>			
Actuarial (losses)/gains on defined benefit plans	20	(9,445)	756
Revaluation of freehold property and pipeline	10,11	23,118	-
Deferred tax on revaluation	9	<u>(3,427)</u>	<u>-</u>
Total comprehensive loss for the year, net of tax		<u>(980)</u>	<u>(10,482)</u>
Attributable to:			
Equity holders of the parent		(982)	(10,561)
Non-controlling interests		<u>2</u>	<u>79</u>
		<u>(980)</u>	<u>(10,482)</u>

## The Penspen Group Limited

Consolidated statement of financial position  
for the year ended 31 December 2016

		2016	2015
	Notes	£'000	£'000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	10	31,159	9,199
Investment properties	11	2,145	1,615
Assets held for sale		-	195
Intangible assets	13	470	470
Other non-current assets		257	-
		<u>34,031</u>	<u>11,479</u>
<b>Current assets</b>			
Inventories	15	1,994	1,797
Trade and other receivables	16	35,022	34,122
Intercompany receivables	22	-	202
Income tax receivable		1,127	2,575
Prepayments		1,666	1,462
Cash	17	4,823	8,866
		<u>44,632</u>	<u>49,024</u>
<b>Total assets</b>		<u>78,663</u>	<u>60,503</u>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Issued share capital	18	34,779	34,779
Share premium	18	3,106	3,106
Deficit		(53,785)	(34,577)
Foreign currency translation reserve		(2,105)	(642)
Revaluation reserve	10, 11	19,691	-
<b>Equity attributable to equity holders of the parent</b>		<u>1,686</u>	<u>2,666</u>
Non-equity preference shares		750	750
Non-controlling interests		152	154
<b>Total equity</b>		<u>2,588</u>	<u>3,570</u>
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	14	8,250	8,250
Other non-current liabilities	21	119	1,005
Deferred tax liabilities	9	3,746	469
Employee benefit liability	20	13,488	4,084
		<u>25,603</u>	<u>13,808</u>
<b>Current liabilities</b>			
Trade and other payables	21	17,771	19,922
Intercompany payables	22	10,854	8,178
Interest-bearing loans and borrowings	14	15,609	11,101
Distributions payable to minority interests		1,517	1,296
Deferred revenue	19	4,721	2,628
		<u>50,472</u>	<u>43,125</u>
<b>Total liabilities</b>		<u>76,075</u>	<u>56,933</u>
<b>Total equity and liabilities</b>		<u>78,663</u>	<u>60,503</u>



P O'Sullivan  
Director  
29 September 2017

## The Penspen Group Limited

Parent company statement of financial position  
for the year ended 31 December 2016

		2016	2015
	Notes	£'000	£'000
<b>Assets</b>			
<b>Non-current assets</b>			
Intercompany receivables	12	2,102	2,782
Investments	12	-	32,646
		<u>2,102</u>	<u>35,428</u>
<b>Current assets</b>			
Intercompany receivables		1,231	503
Cash	17	4	4
		<u>1,235</u>	<u>507</u>
<b>Total assets</b>		<u>3,337</u>	<u>35,935</u>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Issued share capital	18	34,779	34,779
Share premium	18	3,106	3,106
Deficit		(43,355)	(10,742)
<b>Equity attributable to equity holders of the parent</b>		<u>(5,470)</u>	<u>27,143</u>
Non-equity interests		750	750
<b>Total equity</b>		<u>(4,720)</u>	<u>27,893</u>
<b>Current liabilities</b>			
Trade and other payables	21	-	291
Intercompany payables	21	8,057	7,751
<b>Total liabilities</b>		<u>8,057</u>	<u>8,042</u>
<b>Total equity and liabilities</b>		<u>3,337</u>	<u>35,935</u>

No income statement account is presented for the parent company as permitted by section 408 of the Companies Act 2006. The loss for the year of the parent company was £32,613,000 (2015: £8,810,000).



P O'Sullivan  
Director  
29 September 2017

# The Penspen Group Limited

Consolidated statement of changes in equity  
for the year ended 31 December 2016

	Attributable to owners of the parent					
	Issued shares (Note 18) £000	Share Premium (Note 18) £000	Deficit £000	Foreign currency translation reserve (Note 18) £000	Revaluation reserve £000	Total £000
As at 1 January 2016	35,529	3,106	(34,577)	(642)	-	3,416
Loss for the period	-	-	(9,763)	-	-	(9,763)
Other comprehensive income	-	-	(9,445)	(1,463)	19,691	8,783
Total comprehensive income	35,529	3,106	(53,785)	(2,105)	19,691	2,436
Issue of share capital (Note 18)	-	-	-	-	-	-
At 31 December 2016	35,529	3,106	(53,785)	(2,105)	19,691	2,436
						152
						2,588

	Attributable to owners of the parent					
	Issued shares (Note 18) £000	Share Premium (Note 18) £000	Deficit £000	Foreign currency translation reserve (Note 18) £000	Revaluation reserve £000	Total £000
As at 1 January 2015	29,529	3,106	(24,115)	(622)	-	7,898
Loss for the period	-	-	(11,218)	-	-	(11,218)
Other comprehensive income	-	-	756	(20)	-	736
Total comprehensive income	29,529	3,106	(34,577)	(642)	-	(2,584)
Issue of share capital (Note 18)	6,000	-	-	-	-	6,000
At 31 December 2015	35,529	3,106	(34,577)	(642)	-	3,416
						154
						8,131
						(11,297)
						736
						(2,430)
						6,000
						3,570

# The Penspen Group Limited

Parent company statement of changes in equity  
for the year ended 31 December 2016

	Issued shares (Note 18) £000	Share Premium (Note 18) £000	(Deficit) / Profit £000	Total equity £000
<b>As at 1 January 2016</b>	<b>35,529</b>	<b>3,106</b>	<b>(10,742)</b>	<b>27,893</b>
Loss for the period	-	-	(32,613)	(32,613)
Total comprehensive income	35,529	3,106	(43,355)	(4,720)
Issue of share capital (Note 18)	-	-	-	-
<b>At 31 December 2016</b>	<b>35,529</b>	<b>3,106</b>	<b>(43,355)</b>	<b>(4,720)</b>
	Issued shares (Note 18) £000	Share Premium (Note 18) £000	(Deficit) / Profit £000	Total equity £000
<b>As at 1 January 2015</b>	<b>29,529</b>	<b>3,106</b>	<b>(1,932)</b>	<b>30,703</b>
Loss for the period	-	-	(8,810)	(8,810)
Total comprehensive income	29,529	3,106	(10,742)	21,893
Issue of share capital (Note 18)	6,000	-	-	6,000
<b>At 31 December 2015</b>	<b>35,529</b>	<b>3,106</b>	<b>(10,742)</b>	<b>27,893</b>

## The Penspen Group Limited

### Consolidated statement of cash flows for the year ended 31 December 2016

	2016 £'000	2015 £'000
<b>Operating activities</b>		
Loss before tax from continuing operations	(8,926)	(11,186)
Loss before tax	(8,926)	(11,186)
<b>Non-cash adjustments to reconcile loss before tax to net cash flows</b>		
Depreciation and impairment of property, plant and equipment	1,790	1,713
Revaluation of investment property	(567)	-
Impairment of intangible assets	-	744
Movements in pensions	(41)	(1,430)
Movements in other non-current liabilities	-	(408)
Loss/(gain) on disposal of property, plant and equipment	46	(42)
Movement on non-controlling interests	(2)	79
Finance costs	498	365
<b>Working capital adjustments</b>		
Increase in trade and other receivables and prepayments	(902)	(2,074)
(increase)/Decrease in inventories	(197)	1,749
Movements in other non-current assets	(257)	-
Movements in other non-current liabilities	(142)	(325)
Increase in trade and other payables	(2,895)	2,246
	(11,595)	(8,569)
Income tax received/(paid)	386	(660)
<b>Net cash flows used in operating activities</b>	(11,209)	(9,229)
<b>Investing activities</b>		
Proceeds from sale of property, plant and equipment	304	227
Purchase of property, plant and equipment	(838)	(1,429)
Interest received	-	-
<b>Net cash flows used in investing activities</b>	(534)	(1,202)
<b>Financing activities</b>		
Proceeds from new borrowings	6,430	10,800
Repayment of existing borrowings	-	(6,000)
Proceeds from issue of shares	-	6,000
Interest paid	(498)	(365)
<b>Net cash flows from financing activities</b>	5,932	10,435
Net (decrease)/increase in cash and cash equivalents	(5,811)	4
Net foreign exchange difference	(10)	(43)
Cash and cash equivalents at 1 January	550	589
<b>Cash and cash equivalents at 31 December</b>	(5,271)	550
<b>Comprising:</b>		
Cash at bank	4,823	8,866
Bank overdraft	(10,094)	(8,316)
<b>Cash and cash equivalents at 31 December</b>	(5,271)	550

## The Penspen Group Limited

Parent company statement of cash flows  
for the year ended 31 December 2016

	2016	2015
Notes	£'000	£'000
<b>Operating activities</b>		
Profit/(loss) before tax from continuing operations	(32,613)	(8,808)
Profit/(loss) before tax	(32,613)	(8,808)
Non-cash adjustment to reconcile loss before tax to net cash flows		
Impairment of investments	32,646	9,076
Finance income	(172)	(155)
Finance costs	69	50
Movements in investments due to forex	-	(163)
Working capital adjustments		
Increase in trade and other receivables and prepayments	(48)	(155)
Increase in trade and other payables	15	-
	(103)	(155)
Interest received	172	155
Income tax paid	(69)	-
<b>Net cash flows from operating activities</b>	-	-
<b>Investing activities</b>		
Investment in subsidiary	-	(6,000)
<b>Net cash flows used in investing activities</b>	-	(6,000)
<b>Financing activities</b>		
Proceeds from issue of shares	-	6,000
<b>Net cash flows from financing activities</b>	-	6,000
Net increase in cash and cash equivalents	-	-
Cash and cash equivalents at 1 January	4	4
<b>Cash and cash equivalents at 31 December</b>	<b>4</b>	<b>4</b>

## The Penspen Group Limited

# Notes to the consolidated financial statements

### 1. Corporate information

The consolidated financial statements of The Penspen Group Limited and its subsidiaries (collectively, the Group) for the year ended 31 December 2016 were authorised for issue in accordance with a resolution of the directors on 29 September 2017. The Penspen Group Limited (the Company) is a limited company incorporated and domiciled in the United Kingdom. The registered office is located at 3 Water Lane, Richmond Upon Thames, Surrey, TW9 1TJ.

The Group is principally engaged in the provision of consulting engineering services to the oil and gas sector and the operation of a pipeline, supplying aviation fuel to Manchester Airport (see Note 6). Information on the Group's ultimate parent undertaking is presented in Note 22.

### 2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements have been prepared on a historical cost basis, except for investment properties, freehold property and a pipeline fixed asset within one subsidiary (classified under pipelines & plant and machinery) that have been measured at fair value. The consolidated financial statements are presented in pounds sterling and all values are rounded to the nearest thousand (£000), except when otherwise indicated.

### Going concern

The group has experienced significant losses in recent years and increases in external and inter-company borrowings. The directors note that the company has access to the significant financial resources of its ultimate parent undertaking. In particular, the ultimate parent has confirmed its ongoing financial support in writing for a period of at least 18 months from the date of approval of the financial statements. This support includes, if and when required, a specific commitment in respect of expected cash outflows for loan repayments to external third parties and payments related to defined benefit pension scheme contributions. On the basis of the directors' assessment of the company's financial position, they have a reasonable expectation that the company will be able to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

### 2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2016. No income statement account is presented for The Penspen Group Limited as permitted by section 408 of the Companies Act 2006.

The loss for the year of the Company, dealt with in its financial statements, was £32,613,000 (2015: £8,810,000).

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

### 2.3 Summary of significant accounting policies

The following are the significant accounting policies applied by the Group in preparing its consolidated financial statements:

#### Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at the acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether to measure any non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating



## Notes to the consolidated financial statements

units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

### 2.3 Summary of significant accounting policies (*continued*)

#### Foreign currencies

The Group's consolidated financial statements are presented in pounds sterling, which is also the parent company's functional currency. For each entity the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and has elected to recycle the gain or loss that arises from this method.

#### *Transactions and balances*

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency spot rate at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transaction. 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. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value in the item (i.e., the translation differences on items whose fair value gain or loss is recognised in other comprehensive income (OCI) or profit or loss are also recognised in OCI or profit or loss, respectively).

#### *Group companies*

The assets and liabilities of foreign operations are translated into pound sterling at the rate of exchange prevailing at the reporting date and their income statements are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on the translation are recognised in other comprehensive income.

#### Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognised:

#### *Sale of goods*

Revenue from the sale of goods held in inventory is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

#### *Sale of services*

Where the outcome of a long-term contract can be assessed with reasonable certainty, turnover and profit are recognised for that portion of the contract which is attributable to the work that has been done, when comparing costs incurred to date with total expected costs. Amounts recoverable on contracts represents the value of work performed for clients but unbilled at the balance sheet date. Payments on account represent amounts received in advance of the related work having been performed.

Revenues on long term contracts include additional compensation for work performed resulting from claims and variations to contracts when realisation is probable and can be reliably estimated.

Provision is made as appropriate for any anticipated losses on contracts as soon as they are foreseen.

#### *Other income*

Rental income from third party tenants that sublet the group's surplus office space by way of operating leases is recognised on a straight-line basis over the term of the lease.

## Notes to the consolidated financial statements

### 2.3 Summary of significant accounting policies (continued)

#### Taxes

##### *Current income tax*

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

##### *Deferred tax*

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised

The carrying amount of deferred tax assets is reviewed at each reporting 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 asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

#### **Property, plant and equipment**

Freehold property in Richmond and the Pipeline asset in Manchester are measured at fair value less accumulated depreciation and impairment losses recognised at the date of revaluation. Valuations are performed with sufficient frequency to ensure that the carrying amount of a revalued asset does not differ materially from its fair value.

A revaluation surplus is recorded in OCI and credited to the asset revaluation surplus in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in profit or loss, the increase is recognised in profit and loss. A revaluation deficit is recognised in the statement of profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation surplus.

## Notes to the consolidated financial statements

### 2.3 Summary of significant accounting policies (continued)

#### Property, plant and equipment (continued)

An annual transfer from the asset revaluation surplus to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation surplus relating to the particular asset being sold is transferred to retained earnings.

Other Property, plant and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognised.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, as follows:

Fixtures, fittings and equipment	–	12.5% to 33.3%
Leasehold property and improvements	–	2.5% to 10%
Motor vehicles	–	25%
Freehold property	–	2%
Pipeline	-	2.5%

The carrying values of property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable, and are written down immediately to their recoverable amount.

#### Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

##### Group as a lessee

Operating lease payments are recognised as an operating expense in the income statement on a straight-line basis over the lease term as adjusted for any lease incentives.

##### Group as a lessor

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income.

#### Investment properties

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the period in which they arise, including the corresponding tax effect. The valuations were undertaken in accordance with the RICS Valuation Standards, Sixth Edition in the United Kingdom by third party valuers, who are qualified for the purpose of the valuation in accordance with the RICS valuation standard.

Investment properties are derecognised when they have either been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the income statement in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

## Notes to the consolidated financial statements

### 2.3 Summary of significant accounting policies (*continued*)

#### Financial instruments — initial recognition and subsequent measurement

##### *Financial assets*

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

The Group's financial assets include cash and loans to fellow group undertakings and trade receivables.

All financial assets are recognised initially at fair value plus transaction costs that are attributable to the acquisition of the financial asset.

##### **Subsequent measurement**

##### *Loans and trade receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of profit or loss. The losses arising from impairment are recognised in the statement of profit or loss in finance costs for loans and in cost of sales or other operating expenses for receivables.

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

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtor or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

##### *Financial assets carried at amortised cost*

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

##### *Financial liabilities*

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

The Group's financial liabilities include trade payables, bank overdrafts, loans and borrowings.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, carried at amortised cost. This includes directly attributable transaction costs.

##### **Subsequent measurement**

The measurement of financial liabilities depends on their classification as follows:

##### *Loans and borrowings*

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate (EIR) method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the EIR amortisation process.

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

##### **Derecognition**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When 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. The difference in the respective carrying amounts is recognised in the income statement.

## Notes to the consolidated financial statements

### 2.3 Summary of significant accounting policies (*continued*)

#### **Inventories**

Inventories (representing equipment held for sale) are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing the equipment to its present location and condition and excludes borrowing costs. Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

#### **Impairment of non-financial assets**

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. It is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows 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. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecasts which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations, including impairment on inventories, are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

The following criteria are also applied in assessing impairment of specific assets:

#### **Goodwill**

Goodwill is tested for impairment annually as at 31 December and when circumstances indicate that the carrying value may be impaired.

Impairment is determined by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than their carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

#### **Provisions**

##### **General**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the income statement net of any reimbursement.

#### **Pensions and other post-employment benefits**

The group operates a defined benefit pension scheme providing benefits based on final pensionable pay. The assets of the plan are held separately from those of the group, being invested with a pensions and investments provider. The current service cost of providing retirement pensions is charged to the consolidated income statement within administrative expenses. Any curtailment gains on the scheme are recognised within other operating income in the consolidated income statement. Financing costs are reflected in interest payable in the period in which they arise. Actuarial gains and losses are included in the consolidated statement of comprehensive income.

## Notes to the consolidated financial statements

### 2.3 Summary of significant accounting policies (*continued*)

#### Pensions and other post-employment benefits (*continued*)

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under 'cost of sales' and 'administrative expenses' in the consolidated income statement (by function):

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- Net interest expense or income

Further details of the pension plan valuation as at 31 December 2016 are given in note 21.

The Group recognises actuarial gains and losses in the period in which they occur in full in other comprehensive income in accordance with IAS 19.93A. Accordingly, the Group recognised all cumulative actuarial gains and losses at the date of transition to IFRS. Further details are disclosed in Note 21.

The group also operates defined contribution schemes. Contributions to these schemes are charged to the income statement as incurred.

### 3 Significant accounting judgements, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

#### Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

#### Taxes

Deferred tax assets are recognised for unused tax losses only to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

The Group has tax losses carried forward that relate to subsidiaries that have a history of losses, do not expire and may not be used to offset taxable income elsewhere in the Group. The subsidiaries have no taxable temporary differences or any tax planning opportunities available that could partly support the recognition of these losses as deferred tax assets. On this basis, the Group has determined that it cannot recognise deferred tax assets on the tax losses carried forward.

Further details on taxes are disclosed in Note 9.

#### Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

#### Revenue recognition

The percentage of completion method, the determination of revenues to recognise on claims and variations to contracts and the extent of recognition of contract losses are reliant on estimates in particular in respect of future expected costs and revenues. The Group reviews the appropriateness of assumptions made on a regular basis.

#### Impairment of trade receivables and unbilled work in progress

An estimate of the collectible amount of trade accounts receivables and unbilled work in progress is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. An analysis of the ageing of fees receivable and unbilled work in progress past due but not impaired is shown in note 16.

## Notes to the consolidated financial statements

### 3 Significant accounting judgements, estimates and assumptions (*continued*)

#### Employee benefit liability

The cost of defined benefit pension plans and other post-employment medical benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of corporate bonds in their respective currencies with at least an AA rating or above, and extrapolated maturity corresponding to the expected duration of the defined benefit obligation. The underlying bonds are further reviewed for quality. Those having excessive credit spreads are removed from the analysis of bonds on which the discount rate is based, on the basis that they do not represent high quality bonds.

The mortality rate is based on publicly available mortality tables for the specific countries. Future salary increases and pension increases are based on expected future inflation rates for the respective countries.

### 4 Changes in accounting policies and disclosures

#### Revaluation of pipeline (classified as property, plant and equipment), freehold property (classified as property, plant and equipment) and investment property

The Group re-assessed its accounting for property, plant and equipment and investment property with respect to measurement of its pipeline, freehold property and investment property after initial recognition. The Group had previously measured all property, plant and equipment and investment property using the cost model whereby, after initial recognition of the asset classified as property, plant and equipment or investment property, the asset was carried at cost less accumulated depreciation and accumulated impairment losses.

On 31 December 2016, the Group elected to change the method of accounting for the pipeline, freehold property and investment property, as the Group believes that the revaluation model provides more relevant information to the users of its financial statements. In addition, available valuation techniques provide reliable estimates of the fair values. The Group applied the revaluation model prospectively.

After initial recognition, pipeline, freehold property and investment property are measured at fair value at the date of the revaluation less, where relevant, any subsequent accumulated depreciation and subsequent accumulated impairment losses. For details refer to Note 10 and 11.

#### New and amended standards and interpretations

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of the previous financial period, except for the following new standards and amendments to IFRS that are mandatorily effective for accounting periods on or after 1 January 2015, except as indicated otherwise:

#### *Annual Improvements 2012-2014 Cycle*

These improvements include:

##### *IAS 19 Employee Benefits*

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment is applied prospectively.

This amendment does not have any impact on the Group.

#### *Amendments to IAS 1 Disclosure Initiative*

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments do not have any impact on the Group.

## Notes to the consolidated financial statements

### 5 Standards issued but not yet effective

The following new and revised IFRSs are not mandatorily effective for the year ended 31 December 2016. However, they are available for early application. Paragraph 30 of IAS 8 requires entities to consider and disclose the potential impact of new and revised IFRSs that have been issued but are not yet effective.

#### *IFRS 9 Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which replaces IAS 39 Financial Instruments: Recognition and Measurement. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory.

The Group is currently assessing the impact of IFRS 9 and plans to adopt the new standard on the required effective date.

#### *IFRS 15 Revenue from Contracts with Customers*

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted.

The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

#### *IFRS 16 Leases*

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. IFRS 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under IAS 17. At the commencement date of a lease, a lessee will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be required to remeasure the lease liability upon the occurrence of certain events. The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting is substantially unchanged as under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

The Group is currently assessing the impact of IFRS 16 on its Financial Statements and plans to adopt the new standard on the required effective date.

### 6 Segment information

For management purposes, the Group is organised into business units based on their services and has two reportable segments as follows:

- The consulting engineers segment; and
- The pipeline operation segment

	2016			2015		
	Consulting engineers	Operation of pipeline	Total	Consulting engineers	Operation of pipeline	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Revenue	68,148	3,787	71,935	95,409	3,185	98,594
Segment operating (loss)/profit	(10,402)	1,974	(9,400)	(12,288)	1,467	(10,821)
Operating assets	50,370	28,293	78,663	54,594	5,909	60,503
Operating liabilities	70,576	5,499	76,075	55,428	1,505	56,933

6 Segment information (*continued*)



The Penspen Group Limited

Notes to the consolidated financial statements

	2016	2015
Geographic information		
	£000	£000
Revenues from external customers		
United Kingdom	19,052	20,891
Americas	13,706	14,172
Middle East	29,737	44,583
Africa	4,880	2,639
Rest of the world	4,560	16,309
<b>Total revenue per consolidated income statement</b>	<b>71,935</b>	<b>98,594</b>

The revenue information above is based on the location of the customer.

Analysis of sales	2016	2015
	£000	£000
Sale of services	70,001	86,144
Sale of goods	1,934	12,450
	<b>71,935</b>	<b>98,594</b>

**7 Administrative Expenses**

Analysis of administrative expenses	2016	2015
	£000	£000
Wages and Salaries	17,607	22,415
Rentals & Utilities	2,971	2,286
Subcontractors & Consultants	1,797	1,065
Travel & Entertainment	1,569	1,973
Computers, Software Licencing & Other IT costs	1,252	1,446
Insurance and Other Professional Fees	1,651	2,798
Depreciation	1,790	1,676
Loss/(gain) on disposal of fixed assets	408	(37)
Telephone and stationaries	559	596
Repairs and maintenance	204	153
Others	1,185	1,469
	<b>30,993</b>	<b>35,840</b>

**8 Operating loss**

Operating loss is stated after charging/ (crediting):

	2016	2015
	£'000	£'000
Depreciation – owned assets	1,790	1,676
Impairment of goodwill	-	744
Auditors remuneration		
- audit of the company and consolidated financial statements *	122	80
- audit of subsidiaries	89	145
- non audit services - taxation	70	11
Operating lease rentals		
- land and buildings	1,255	1,189
- plant and machinery	174	179
Foreign exchange gains	(1,235)	(146)

\*£20,650 (2015: £35,800) of this amount relates to the audit of the company

# Notes to the consolidated financial statements

## 8 Operating loss (continued)

### Finance costs

	2016	2015
	£'000	£'000
Loan interest payable	498	365
<b>Total finance costs</b>	<b>498</b>	<b>365</b>

### Staff costs

	2016	2015
	£'000	£'000
Wages and salaries	48,404	58,370
Social security costs	1,665	1,823
Other pension costs	1,226	1,263
<b>Total staff costs</b>	<b>51,295</b>	<b>61,456</b>

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

	2016	2015
	£'000	£'000
Technical staff	600	710
Administration staff	124	133
<b>Total</b>	<b>724</b>	<b>843</b>

### Directors' remuneration

	2016	2015
	£'000	£'000
Emoluments	503	715
Contributions to defined benefit pension scheme	14	18
<b>Total</b>	<b>517</b>	<b>733</b>

The number of directors who were members of pension schemes during the year were as follows:

	2016	2015
	No.	No.
Defined benefit schemes	1	1

In respect of the highest paid director:

	2016	2015
	£'000	£'000
Emoluments	316	405

# The Penspen Group Limited

## Notes to the consolidated financial statements

### 9 Income tax (continued)

The major components of income tax expense for the years ended 31 December 2016 and 2015 are:

#### Consolidated income statement

	2016	2015
	£'000	£'000
<b>Current income tax:</b>		
Current income tax charge	987	164
<b>Deferred tax:</b>		
Relating to origination and reversal of temporary differences	(150)	(53)
<b>Income tax expense reported in the consolidated income statement</b>	<b>837</b>	<b>111</b>

A reconciliation between tax expense and the product of accounting profit multiplied by the Group's domestic tax rate for the years ended 31 December 2016 and 2015 is as follows:

	2016	2015
	£'000	£'000
<b>Accounting loss before income tax</b>	<b>(9,898)</b>	<b>(11,186)</b>
Tax using the company's domestic tax rate for the period of 20% (2015: 20.25%)	(1,980)	(2,265)
<b>Effect of:</b>		
Expenses not deductible for tax purposes / non-taxable income	327	64
Timing differences on which deferred tax is recognised	-	-
Timing differences on which deferred tax is not recognised	(390)	(38)
Adjustments in respect of previous periods	(73)	(152)
Higher / (lower) taxes on overseas earnings	2,379	859
Overseas tax suffered	156	-
Brought forward losses utilised	(492)	(351)
Unrelieved tax losses carried forward	811	1,993
Rate change impact	99	1
<b>Total tax</b>	<b>837</b>	<b>111</b>
<b>Effective rate of tax</b>	<b>-8.5%</b>	<b>-1.0%</b>

#### Deferred tax

Deferred tax relates to the following:

	Consolidated statement of financial position		Consolidated income statement	
	2016	2015	2016	2015
	£000	£000	£000	£000
Accelerated depreciation for tax purposes	(337)	(490)	(150)	(53)
General provisions	18	21	-	-
Revaluation gain	(3,427)	-	-	-
<b>Deferred tax expense/(income)</b>			<b>(150)</b>	<b>(53)</b>
<b>Net deferred tax assets/(liabilities)</b>	<b>(3,746)</b>	<b>(469)</b>		

Reflected in the statement of financial position as follows:

Deferred tax assets	-	-
Deferred tax liabilities — continuing operations	(3,746)	(469)
<b>Deferred tax (liabilities)/assets</b>	<b>(3,746)</b>	<b>(469)</b>

## Notes to the consolidated financial statements

### 9 Income tax (continued)

#### Reconciliation of net deferred tax liabilities

	2016	2015
	£'000	£'000
Opening balance as of 1 January	(469)	(522)
Charged to equity	(3,427)	-
Tax income/(expense) during the period recognised in profit or loss	150	53
Closing balance as of 31 December	<u>(3,746)</u>	<u>(469)</u>

The Group offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

The Group has tax losses that arose of £49,463k (2015: £22,085k) and are available for offset against future taxable profits of the companies in which the losses arose. However, as these losses relate to subsidiaries that have a history of losses, deferred tax assets have not been recognised as these losses may not be used to offset taxable profits elsewhere in the Group. The subsidiary has neither taxable temporary differences nor any tax planning opportunities available that could partly support the recognition of these losses as deferred tax assets. If the Group were able to recognise all unrecognised deferred tax assets, profit would increase by £9,599k.

#### Factors which may affect future tax charges:

The Finance (No. 2) Act 2015, substantively enacted on 26 October 2015, reduced the main rate of corporation tax from 20% to 19% from 1 April 2017 and to 18% from 1 April 2020, whilst the Finance Act 2016, substantively enacted on 6 September 2016, included further reduction of the rate of 18% to 17% from 1 April 2020. The effects of these changes are reflected in the deferred tax balances at 31 December 2016.

## Notes to the consolidated financial statements

## 10 Property, plant and equipment

## Group

	Pipeline & Plant and machinery	Fixtures, fittings and equipment	Motor vehicles	Leasehold property/ improvements	Freehold property	Total
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cost or valuation:</b>						
<b>At 1 January 2015</b>	7,062	8,951	1,553	808	3,854	22,228
Reclassification to assets held for sale	-	-	-	(293)	-	(293)
Additions	72	1,058	226	73	-	1,429
Exchange difference	-	21	-	-	-	21
Disposals	-	(66)	(111)	(11)	(209)	(397)
<b>At 31 December 2015</b>	<u>7,134</u>	<u>9,964</u>	<u>1,668</u>	<u>577</u>	<u>3,645</u>	<u>22,988</u>
 Fair value adjustment	17,608	-	-	-	2,432	20,040
Reclassification	-	(122)	-	(15)	-	(137)
Additions	14	753	35	36	-	838
Exchange difference	36	(6)	(11)	-	-	19
Disposals	-	(120)	(389)	-	-	(509)
<b>At 31 December 2016</b>	<u>24,792</u>	<u>10,469</u>	<u>1,303</u>	<u>598</u>	<u>6,077</u>	<u>43,239</u>
 <b>Depreciation and impairment:</b>						
<b>At 1 January 2015</b>	4,095	6,473	1,013	434	430	12,445
Reclassification to assets held for sale	-	-	-	(98)	-	(98)
Charge for the year	391	999	154	56	76	1,676
Exchange difference	-	(22)	-	-	-	(22)
Disposals	-	(35)	(114)	-	(63)	(212)
<b>At 31 December 2015</b>	<u>4,486</u>	<u>7,415</u>	<u>1,053</u>	<u>392</u>	<u>443</u>	<u>13,789</u>
 Fair value adjustment	(2,553)	-	-	-	(525)	(3,078)
Reclassification	(33)	-	-	(5)	-	(38)
Charge for the year	650	860	111	56	76	1,753
Exchange difference	(4)	4	8	-	-	8
Disposals	-	(120)	(234)	-	-	(354)
<b>At 31 December 2016</b>	<u>2,546</u>	<u>8,159</u>	<u>938</u>	<u>443</u>	<u>(6)</u>	<u>12,080</u>
 Net book value:						
At 31 December 2016	<u>22,246</u>	<u>2,310</u>	<u>365</u>	<u>155</u>	<u>6,083</u>	<u>31,159</u>
At 31 December 2015	<u>2,648</u>	<u>2,549</u>	<u>615</u>	<u>185</u>	<u>3,202</u>	<u>9,199</u>

## Company

The company has no property, plant or equipment.

## Notes to the consolidated financial statements

### 10 Property, plant and equipment (continued)

#### Revaluation of Freehold Property

Management determined that the freehold property constitutes a separate class of property, plant and equipment, based on the nature, characteristics and risks of the property.

The fair value of this property was determined using the market comparable method in accordance with the RICS Valuation – Professional Standards 2014 edition. The valuation has been performed by the valuer and is based on proprietary databases of prices of transactions for properties of similar nature, location and condition. As at the date of revaluation on 31 December 2016, the property's fair value is based on a valuation performed by Farebrother, an accredited valuer who has valuation experience for similar freehold properties in Richmond, England (where the freehold property is located). A net gain from the revaluation of the freehold property in Richmond of £3,361k as at 31 December 2016 is recognised in OCI.

If the freehold property was measured using the cost model, the carrying amount would be as follows:

	<b>2016</b>
	<b>£000</b>
Cost	3,780
Accumulated depreciation	(466)
<b>Net carrying value</b>	<b>3,314</b>

#### Revaluation of Manchester Jetline Ltd Pipeline

Management determined that the pipeline asset owned by Manchester Jetline Ltd, a subsidiary undertaking, constitutes a separate class of property, plant and equipment, based on the nature, characteristics and risks of the property.

The fair value of this property was determined using discounted cash flows ("DCF"). As at the date of revaluation on 31 December 2016, the pipeline's fair value is based on valuation performed by IPA Advisory Ltd, a consultancy firm providing strategic insight, techno-economic and financial analysis to the Energy and Infrastructure sectors. IPA Advisory Ltd is part of Dar Group and owned by the same ultimate parent as Penspen Group. A net gain from the revaluation of the pipeline of £20,161k as at 31 December 2016 is recognised in OCI.

If the pipeline asset was measured using the cost model, the carrying amount would be as follows:

	<b>2016</b>
	<b>£000</b>
Cost	4,388
Accumulated depreciation	(2,553)
<b>Net carrying value</b>	<b>1,835</b>

## Notes to the consolidated financial statements

### 11 Investment properties

This relates to the externally let units of the freehold property in Richmond.

	2016 £000	2015 £000
Opening balance at 1 January	1,615	1,652
Depreciation – charge for the year	(37)	(37)
Fair value adjustment	567	-
<b>Closing balance at 31 December</b>	<b>2,145</b>	<b>1,615</b>

#### Fair value hierarchy

The Group considers that all the investment properties outlined above fall within Level 3 of the fair value hierarchy for both the current and prior period. The Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. There have been no movements within the categories of the fair value hierarchy. Property is measured at fair value, taking account of the highest and best use.

#### Valuation methodology

Valuations of the Group's properties are primarily performed at each period end by Farebrother, an accredited valuer who has valuation experience for similar freehold properties in Richmond, England (where the freehold property is located), based on the following:

- information provided by management including confidential rent rolls, expected vacancy, break options, expiry dates, lease incentives and capital expenditure; and
- market assumptions derived from their own independent assessment and market observations.

Where the properties in the portfolio were valued on an income capitalisation basis, a key unobservable input into such valuations is the initial yield (in percentage terms) applied to the income stream arising or expected to arise from the property. The yield applied is subject to judgement based on the quality and location, the nature of the lease terms and tenant in place at the property.

The key unobservable input to fair value measurement is the initial yield of 5.75% to 7.00%.

The fair value of this investment property was determined using the market comparable method in accordance with the RICS Valuation – Professional Standards 2014 edition. The valuation has been performed by the valuer and is based on proprietary databases of prices of transactions for properties of similar nature, location and condition. A net revaluation gain of £567k at 31 December 2016 is recognised in the income statement.

If the investment property was measured using the cost model, the carrying amount would be as follows:

	2016 £000
Cost	1,615
Accumulated depreciation	(37)
<b>Net carrying value</b>	<b>1,578</b>

### 12 Investments

#### Company

	Loans to subsidiary undertakings £'000	Shares in subsidiary undertakings £'000	Total £'000
Cost or valuation:			
At 1 January 2016	2,782	32,646	35,428
Repayment	(469)	-	(469)
Impairment	-	(32,646)	(32,646)
Exchange differences	(211)	-	(211)
At 31 December 2016	2,102	-	2,102

## The Penspen Group Limited

# Notes to the consolidated financial statements

### 12 Investments (continued)

The loan to subsidiary undertaking PLGS Holdings Incorporated is US\$ denominated and amounts to US\$3,450,000. The loan has an interest rate of 5.25% per annum and is repayable at maturity on 27 February 2018.

The subsidiaries related to investments are listed in note 22.

### 13 Intangible assets - Goodwill

#### Group

Cost	£000
At 1 January 2015	11,363
Additions	-
Exchange differences	28
<b>At 31 December 2015</b>	<b>11,391</b>
Exchange differences	-
<b>At 31 December 2016</b>	<b>11,391</b>
<b>Impairment</b>	
At 1 January 2015	(10,177)
Impairment	(744)
<b>At 31 December 2015</b>	<b>(10,921)</b>
Impairment	-
<b>At 31 December 2016</b>	<b>(10,921)</b>
<b>Net book value</b>	
<b>At 31 December 2016</b>	<b>470</b>
At 31 December 2015	470
At 1 January 2015	1,186

#### Company

The company has no intangible assets.

Goodwill also arose on the acquisition of Progas Limited, which completed in 2009. The historical cost book value brought forward on transition to IFRS at 1 January 2014 represents carrying value subject to annual impairment review in accordance with International Financial Reporting Standards.

The Group performed its annual impairment test as at 31 December 2016.

While there has been a general decline in the opportunities available in engineering within the oil and gas industry, the group, due to its pursuit of a deliberate diversification strategy, has continued to see growth in its Asset Management CGU.

#### Asset Management CGU

The recoverable amount of the Asset Management CGU is also determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. The projected cash flows have been updated to reflect the decreased demand for products and services. The pre-tax discount rate applied to the cash flow projections is 15.0% (2015: 15.0%). The growth rate used to extrapolate the cash flows of the Asset Management unit beyond the five-year period is 2.0% (2015: 2.0%). Management of the Asset Management unit believes this growth rate is justified based on the recent contracts won and bids in the pipeline. As a result of the updated analysis, management did not identify an impairment for this CGU to which goodwill of £470,000 is allocated.

#### Key assumptions used in value in use calculations

The calculation of value in use for the Asset management CGU are most sensitive to the following assumptions:

- EBITDA
- Discount rates

EBITDA – EBITDA for the five-year period used in the analysis is based on the value achieved by the CGU during 2016 after adjusting for exceptional/one-off items. EBITDA growth is in line with the forecast growth in cash flows included above.



## Notes to the consolidated financial statements

### 13 Intangible assets – Goodwill (continued)

*Discount rates* — Discount rates represent the current market assessment of the risks specific to each cash-generating unit, regarding the time value of money and individual risks of the underlying assets which have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity, where applicable. The cost of equity is derived from the expected return on investment by the Group's investors.

£744k of goodwill arose on the acquisition of the Engineering division of the DPS Group on 12 September 2014. Following the poor performance of the acquired business since acquisition and its impact on current and future cash flows, the directors decided to impair this goodwill in full in 2015.

### 14 Other financial assets and financial liabilities

#### Interest-bearing loans and borrowings

	Interest rate %	Maturity	2016 £000	2015 £000
<b>Current interest-bearing loans and borrowings</b>				
Bank overdrafts*	LIBOR + 1.5	On demand	10,094	8,316
<b>Other current loans</b>				
US\$6,000,000 bank loan**	3 - 3.75	30 June 2017	4,765	2,035
Secured loan of £9,000,000***	1.75	11 June 2020	750	750
<b>Total current interest-bearing loans and borrowings</b>			<b>15,609</b>	<b>11,101</b>
<b>Non-current interest-bearing loans and borrowings</b>				
Secured loan of £9,000,000***	1.75	11 June 2020	8,250	8,250
<b>Total interest-bearing loans and borrowings</b>			<b>23,859</b>	<b>19,351</b>

#### \*Bank overdrafts

The bank overdrafts are secured by guarantees provided by certain group undertakings, including the ultimate parent.

#### \*\*US\$6,000,000 bank loan

This loan is secured by unconditional and irrecoverable blanket corporate guarantee from the ultimate parent. The earliest repayment was deferred to 30 October 2017.

#### \*\*\*£9,000,000 Secured bank loan

This loan is secured by a deposit placed with the bank for an equivalent amount by the group's ultimate parent undertaking. The first principal repayment of £750,000 is due in December 2017.

In the opinion of the directors, the Group's financial assets and liabilities have the same carrying value and fair value.

# Notes to the consolidated financial statements

## 15 Inventories

	2016	2015
	£000	£000
<i>Group</i>		
Inventories of equipment held for sale	1,994	1,797
	<u>1,994</u>	<u>1,797</u>

### Company

The company has no inventories.

## 16 Trade and other receivables

	2016	2015
	£000	£000
<i>Group</i>		
Trade receivables - net	21,517	24,415
Amounts recoverable on contracts	13,110	9,419
Other receivables	395	288
	<u>35,022</u>	<u>34,122</u>
<i>Company</i>		
Amounts due from other group undertakings	1,031	303
Amounts due from parent undertakings	200	200
	<u>1,231</u>	<u>503</u>

Trade receivables are non-interest bearing and are generally on terms of 30-90 days.

As at 31 December 2016, trade receivables of an initial value of £5,504k (2015: £5,996k) were impaired and fully provided for. See below for the movements in the provision for impairment of receivables.

	Individually impaired
	£000
<b>At 1 January 2015</b>	6,135
Charge for the year	170
Utilised / amounts written off	(483)
Unused amounts reversed	31
Exchange rate adjustment	143
<b>At 31 December 2015</b>	<u>5,996</u>
Charge for the year	239
Utilised / amounts written off	(1,204)
Unused amounts reversed	(130)
Exchange rate adjustment	603
<b>At 31 December 2016</b>	<u>5,504</u>

As at 31 December, the ageing analysis of trade receivables is as follows:

	Total	Neither past due nor impaired	<90 days	91-180 days	181-365 days	>365 days
	£000	£000	£000	£000	£000	£000
<b>2016</b>	21,517	3,386	4,175	1,515	8,194	4,247
<b>2015</b>	24,415	8,208	5,847	3,175	5,119	2,066

See Note 24 on credit risk of trade receivables, which discusses how the Group manages and measures creditquality of trade receivables that are neither past due nor impaired.

The Penspen Group Limited

Notes to the consolidated financial statements

17 Cash

	2016 £000	2015 £000
<i>Group</i>		
Cash at banks and on hand	4,823	8,866
<i>Company</i>		
Cash at banks and on hand	4	4

Included within the cash balance is an amount of £1,089,000 (2015: £1,047,000) relating to restricted balances on accounts held in Libya.

At 31 December 2016, the Group had available £2,083,000 (2015: £684,000) of undrawn committed borrowing facilities.

For the purpose of the statement of cash flows, cash and cash equivalents comprise the following at 31 December:

	2016 £000	2015 £000
Cash at banks and on hand	4,823	8,866
	<u>4,823</u>	<u>8,866</u>
Bank overdrafts	(10,094)	(8,316)
Cash	<u>(5,271)</u>	<u>550</u>

18 Issued capital and reserves

<i>Company</i>	2016 Thousands	2015 Thousands
<i>Authorised shares</i>		
<i>Equity</i>		
Ordinary shares of £1 each	34,779	34,779
<i>Non-Equity</i>		
13% preference shares of £1 each	750	750
	Thousands	£000
<i>Ordinary shares issued and fully paid</i>		
At 1 January 2015	28,779	28,779
Issued in December 2015	<u>6,000</u>	<u>6,000</u>
At 31 December 2015	<u>34,779</u>	<u>34,779</u>
At 31 December 2016	<u>34,779</u>	<u>34,779</u>
		£000
<i>Share Premium</i>		
At 1 January 2015		3,106
At 31 December 2015		3,106
At 31 December 2016		3,106

Non-equity items relate entirely to preference shares. These shares carry an entitlement to dividend at the rate of 13p per share per annum. Holders of the cumulative preference shares have no entitlement to vote. The entitlement to dividends on these shares has been permanently waived.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries to the Group functional currency.

# Notes to the consolidated financial statements

## 19 Deferred revenue

	2016 £000	2015 £000
At 1 January	2,628	582
Deferred during the year	2,374	2,531
Released to the income statement	(281)	(485)
At 31 December	<u>4,721</u>	<u>2,628</u>

The deferred revenue relates to the accrual and release of payments received in respect of revenue that does not yet satisfy recognition criteria or payments on account in advance of the related work having been performed.

## 20 Pensions and other post-employment benefit plans

The group operates a defined benefit pension scheme ("The Pension and Life Assurance Plan of Penspen Ltd") providing benefits based on final pensionable pay. From 31 July 2015, the scheme was closed to future accrual.

The group also operates defined contribution schemes. Contributions to these schemes are charged to the profit and loss account as incurred.

The following tables summarise the components of net benefit expense recognised in the consolidated income statement and the funded status and amounts recognised in the consolidated statement of financial position for the respective plans:

### Net benefit income/ (expense) (recognised in the income statement)

	2016 £'000	2015 £'000
Current service cost	-	(514)
Net interest cost	(277)	(218)
Curtailment gain	-	1,480
Administration expenses	(124)	(115)
Net benefit (expense)/income	<u>401</u>	<u>633</u>

### Net benefit (expense) / income (recognised in other comprehensive income)

	2016 £'000	2015 £'000
Actuarial gain/(loss) on pension scheme assets	6,242	(1,071)
Actuarial (loss)/gain arising from changes in financial assumptions	(15,687)	1,827
	<u>(9,445)</u>	<u>756</u>

### Benefit liability

	31 December 2016 £'000	31 December 2015 £'000
Fair value of scheme assets	59,093	52,713
Present value of defined benefit obligation	(72,581)	(56,797)
Benefit liability	<u>(13,488)</u>	<u>(4,084)</u>

# Notes to the consolidated financial statements

## 20 Pensions and other post-employment benefit plans (continued)

Changes in the present value of the defined benefit obligation are as follows:

	£'000
Defined benefit obligation at 1 January 2015	59,164
Interest cost	2,157
Current service cost	514
Plan participants' contributions	15
Benefits paid	(1,746)
Actuarial gains on obligation	(1,827)
Curtailment gain	(1,480)
<b>Defined benefit obligation at 31 December 2015</b>	<b>56,797</b>
Interest cost	2,175
Current service cost	-
Plan participants' contributions	-
Benefits paid	(2,078)
Actuarial losses on obligation	15,687
Curtailment gain	-
<b>Defined benefit obligation at 31 December 2016</b>	<b>72,581</b>

Changes in the fair value of plan assets are as follows:

	£'000
Fair value of plan assets at 1 January 2015	52,894
Expected return	1,939
Contributions by employer	797
Plan participants' contributions	15
Benefits paid	(1,746)
Actuarial losses	(1,071)
Administration expenses	(115)
<b>Fair value of plan assets at 31 December 2015</b>	<b>52,713</b>
Expected return	1,898
Contributions by employer	442
Plan participants' contributions	-
Benefits paid	(2,078)
Actuarial gains	6,242
Administration expenses	(124)
<b>Fair value of plan assets at 31 December 2016</b>	<b>59,093</b>

The Group expects to contribute £363,000 to its defined benefit pension plans in 2017.

The major categories of plan assets as a percentage of the fair value of the total plan assets are as follows:

	2016	2015
	%	%
Equities	38	34
Property	12	13
Bonds	20	16
Cash	17	24
Other	13	13

The overall expected rate of return on assets is determined based on the market expectations prevailing on that date, applicable to the period over which the obligation is to be settled. These are reflected in the principal assumptions below.

# Notes to the consolidated financial statements

## 20 Pensions and other post-employment benefit plans (continued)

The principal assumptions used in determining pension and post-employment medical benefit obligations for the Group's plans are shown below:

	2016	2015	2014	2013	2012
	%	%	%	%	%
Discount rate	2.65	3.90	3.70	4.65	4.45
Expected rate of return on assets	2.65	3.90	3.70	4.65	4.45
Future salary increases	n/a	1.95	3.40	2.50	2.00
Future pension increases	3.05	3.00	2.95	3.30	2.80
Post retirement mortality for pensioners at the age of 65:					
Male	22.7	22.6	22.6	22.6	22.1
Female	25.7	25.5	25.5	25.5	24.2

### Experience adjustments

	2016	2015	2014	2013	2012
	£'000	£'000	£'000	£'000	£'000
Fair value of assets, end of year	59,093	52,713	52,894	48,496	45,942
Defined benefit obligation, end of year	(72,581)	(56,797)	(59,164)	(49,874)	(48,812)
Funded status	(13,488)	(4,084)	(6,270)	(1,378)	(2,870)
Experience adjustment on plan assets (gain) / loss	(6,242)	1,071	(2,941)	(1,367)	(2,086)

## 21 Trade and other payables

	31 December 2016	31 December 2015
	£'000	£'000
<b>Current</b>		
<b>Group</b>		
Trade payables	3,435	5,171
Accruals	12,480	11,508
Other payables	1,856	3,243
	<u>17,771</u>	<u>19,922</u>
<b>Company</b>		
Trade payables	-	291
Amounts owed to other group undertakings	8,057	7,751
	<u>8,057</u>	<u>8,042</u>
<b>Group</b>		
<b>Non-current</b>		
Other non-current liabilities	<u>119</u>	<u>1,005</u>

Terms and conditions of the above current financial liabilities:

- Trade payables are non-interest bearing and are normally settled on 60-day terms
- Other payables are non-interest bearing and have an average term of six months

**Non-current liabilities-** comprise mainly deferred bonuses payable under senior management incentive plans, which were terminated at 31 December 2013. The balance left relates to unvested amounts on these plans to be settled in future years.

# Notes to the consolidated financial statements

## 22 Related party disclosures

The financial statements include the financial statements of the Group and the subsidiaries listed in the following table:

Name	Registered address / location	% equity interest		
		The Penspen Group Limited	Subsidiary undertakings	Effective % share capital held in group
		%	%	%
Penspen Limited	3 Water Lane, Richmond, Surrey, TW 9 1TJ, UK	100.0	—	100.0
Pencol International Limited	Ajman, UAE	69.4	30.6	100.0
Penspen International Limited	KCS Hong Kong Limited, 36/F., Tower 2, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong	100.0	-	100.0
Penspen SA de CV	Samarkanda 306, piso 3 Col. Tabasco 2000, Villahermosa, CP 86035, Tabasco, Mexico	99.0	1.0	100.0
Servicios de Ingenieria y Proyectos Latam SA de CV	Samarkanda 306, piso 3 Col. Tabasco 2000, Villahermosa, CP 86035, Tabasco Mexico	99.0	1.0	100.0
Manchester Jetline Limited	3 Water Lane, Richmond, Surrey, TW9 1TJ, UK	-	100.0	100.0
Penspen Process Limited	3 Water Lane, Richmond, Surrey, TW9 1TJ, UK	100.0	—	100.0
Greystar Corporation	920 Memorial City Way, Suite 200, Houston, TX 77024, USA	-	100.0	100.0
PLGS Holdings Incorporated	920 Memorial City Way, Suite 200, Houston, TX 77024, USA	-	100.0	100.0
Greystar Teelal	Al Douf Street-Ben Ashour, Tripoli, Libya	-	65.0	65.0
Penspen Limited	Permpoon Building, 5th Floor, 32 Soi Sukhumvit 87, Bangchak, Phrakonong, Thailand, 10260	100.0	-	100.0
Penspen Services Limited	Permpoon Building, 5th Floor, 32 Soi Sukhumvit 87, Bangchak, Phrakonong, Thailand, 10260	100.0	-	100.0
Penspen Pty	Perth, Australia	100.0	-	100.0
Penspen SAS (liquidated in January 2017)	47 Boulevard Georges Clémenceau 92415 Courbevoie CEDEX, France	-	100.0	100.0
Greystar Mexico	Samarkanda 306, piso 3 Col. Tabasco 2000, Villahermosa, CP 86035, Tabasco, Mexico	-	100.0	100.0
Pinnacle Energy	Samarkanda 306, piso 3 Col. Tabasco 2000, Villahermosa, CP 86035, Tabasco, Mexico	-	100.0	100.0

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

- the requirements of paragraph 17 of IAS 24 Related Party Disclosures;
- the requirements in 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

# Notes to the consolidated financial statements

## 22 Related party disclosures (continued)

The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial year:

	Sales to related party	Purchases from related party	Amounts owed by related party	Amounts owed to related party
	£'000	£'000	£'000	£'000
<i>Related party</i>				
Dar Al-Handasah Consultants Shair & Partners Holdings (UK) Limited				
2016	-	-	200	1,553
2015	-	2	-	1,380
Dar Al-Handasah Consultants Shair & Partners Holdings (UAE) Limited				
2016	65	-	336	5,792
2015	499	-	202	849
Dar Al-Handasah Consultants Shair & Partners Holdings (Khafji) Limited				
2016	-	5,155	-	4,045
2015	-	7,445	-	5,948

### The ultimate parent

The ultimate parent undertaking is Dar Al-Handasah Consultants Shair & Partners Holdings Limited a company registered in Dubai. The consolidated financial statements of Dar Al-Handasah Consultants Shair & Partners Holdings Limited (the largest group in which the results of the group are consolidated) are not available to the public. The immediate parent undertaking is Dar Al-Handasah (UK) Limited, a company registered in the UK. The smallest group in which the results of the group are consolidated is that headed by The Penspen Group Limited.

### Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the yearend are unsecured, interest free and repayable on demand. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2016, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2015: £Nil). This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

## 23 Commitments and contingencies

### Operating lease commitments — Group as lessee

The Group has entered into commercial leases primarily on properties. These leases have an average life of between three and ten years with no renewal option included in the contracts. There are no restrictions placed upon the Group by entering into these leases.

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

	2016	2015
	£000	£000
Within one year	1,317	1,213
After one year but not more than five years	1,122	2,739
More than five years	1,217	617
	<u>3,656</u>	<u>4,569</u>



# Notes to the consolidated financial statements

## 23 Commitments and contingencies (continued)

### Operating lease commitments — Group as lessor

The Group holds surplus office and industrial buildings, as disclosed in note 11, which are let to third parties. These non-cancellable leases have remaining terms of between 5 and 8 years. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions.

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

	2016	2015
	£000	£000
Within one year	184	184
After one year but not more than five years	421	565
More than five years	35	59
	<u>640</u>	<u>808</u>

### Contingent liabilities and guarantees

The Group has provided the following guarantees at 31 December 2016:

1. There are contingent liabilities in respect of performance and guarantee bonds given in the normal course of business by subsidiary undertakings to clients abroad. At 31 December 2016, the liability under these bonds at current exchange rates amounted to £13,300k (2015: £16,872k).
2. As permitted by ~~s479c~~ <sup>pg</sup> ~~s479a~~ of the Companies Act 2006 ('the Act'), the company has provided guarantees in respect of all outstanding liabilities relating to the year ended 31 December 2016 in respect of the following group undertakings, which are consequently exempt from the requirements of the Act relating to the audit of individual accounts:
  - a. Manchester Jetline Limited (Registered No: 2392093 and whose Registered Office address is 3 Water Lane, Richmond, Surrey, TW9 1TJ)
  - b. Penspen Process Limited (Registered No: 1947242 and whose Registered Office address is 3 Water Lane, Richmond, Surrey, TW9 1TJ)

## 24 Financial risk management objectives and policies

The Group's principal financial liabilities comprise loans and borrowings and trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations and to provide guarantees to support its operations. The Group has loan and other receivables, trade and other receivables, and cash and short-term deposits that arrive directly from its operations.

The Group is exposed to interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group's senior management oversees these risks and reviews and agrees policies for their management, which have a significant impact on the group as set out below.

### Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchangerates relates primarily to the Group's operating activities (when revenue or expense is denominated in a different currency from the Group's functional currency) and the Group's net investments in foreign subsidiaries

### Credit risk

The Group trades only with recognised, credit worthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis. The maximum exposure is the carrying amount as disclosed in Note 16. The Group's management also monitors the ageing of the trade receivables regularly and follows up with the relevant business operating unit on overdue balances. Management considers that there are no significant concentrations of credit risk within the Group, as the Group operates in a number of geographical regions, across different market segments, with a diverse customer base spread across the public and private sectors.

# Notes to the consolidated financial statements

## 24 Financial risk management objectives and policies (continued)

### Liquidity risk

The Group monitors its exposure to a shortage of funds using a cash flow forecast model. The model considers the maturity of its financial assets (e.g. trade receivables and other current assets). The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank and inter-company borrowings.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	£000	£000	£000	£000	£000	£000
<b>Year ended 31 December 2016</b>						
Interest-bearing loans and borrowings	10,094	-	5,515	8,250	-	23,859
Other liabilities	-	-	1,517	119	-	1,636
Trade and other payables	-	17,771	-	-	-	17,771
Intercompany payable	-	10,854	-	-	-	10,854
	<u>10,094</u>	<u>28,625</u>	<u>7,032</u>	<u>8,369</u>	<u>-</u>	<u>54,120</u>

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	£000	£000	£000	£000	£000	£000
<b>Year ended 31 December 2015</b>						
Interest-bearing loans and borrowings	8,316	470	2,785	8,250	-	19,821
Other liabilities	-	-	1,296	1,005	-	2,301
Trade and other payables	-	19,452	-	-	-	19,452
Intercompany payable	-	8,178	-	-	-	8,178
	<u>8,316</u>	<u>28,100</u>	<u>4,081</u>	<u>9,255</u>	<u>-</u>	<u>49,752</u>

### Capital management

Capital includes preference shares and equity attributable to the equity holders of the parent.

The primary objective of the Group's capital management is to ensure that it addresses the strength of the credit rating in order to support its business.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may take actions such as the issue of new shares.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2016 and 2015.