Company Registration No. SC061143 (Scotland)

PERENCO (OIL & GAS) INTERNATIONAL LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

PERENCO (OIL & GAS) INTERNATIONAL LIMITED

COMPANY INFORMATION

Officers and professional advisers

Directors	N J Fallows A Eager J B Parr
Secretary	A Eager
Company number	SC061143
Registered office	2 Lochrin Square 96 Fountainbridge Edinburgh EH3 9QA
Auditors	Deloitte LLP Chartered Accountants London, UK
Bankers	The Royal Bank of Scotland 5-10 Great Tower Street London EC3R 5DJ
Solicitors	Herbert Smith Exchange House Primrose Street London EC2A 2H

PERENCO (OIL & GAS) INTERNATIONAL LIMITED

CONTENTS

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

The directors present the strategic report and financial statements for the year ended 31 December 2018. Perenco (Oil & Gas) International Limited (the "Company") is an investment holding company, a private company limited by shares, with one major subsidiary (together the "Group"). The primary objective of the Group is to increase shareholder wealth through the production and sale of petroleum and natural gas.

Business review

The revenue recorded by the Group has grown when compared to the prior year at £151,178k (2017: £124,002k). The Group recorded a profit after taxation of £44,247k, a 5% increase on the prior year (2017: £42,238k) driven principally by an improvement in the underlying oil price. The gross profit margin has increased to 51% (2017: 41%).

The balance sheet shows that the Group's overall financial position at the end of the year has increased, with net assets increasing to £316.7 million at 31 December 2018 from £255.4 million at 31 December 2017.

The Group strengthened its balance sheet position also due to favourable exchange rates movements during the period with a closing balance sheet £:$ rate of 1.28 (2017: 1.3517).

The Group completed the acquisition of 49% interest in a group of companies, operating in Mexico, from Petrofac Ltd on the 18th October 2018, with main shareholdings acquired in Petrofac Netherlands Holdings B.V.and Petro oil and gas limited. The provisional fair value consideration for the companies acquired was £174.1 m.

Key performance indicators

The key performance indicators for the Group are revenue, gross profit margin and profit after tax. Directors use these measures to evaluate operating performance and make financial and strategic decisions to ensure return of value to shareholders. The KPIs achieved during the 2018 are included in the business review section above.

Major hazards

The Group recognises that our operations involve major hazards and are committed to providing the necessary leadership so as to ensure that the resulting risks to people, the environment and property are as low as reasonably practicable. There is a Board Committee to ensure that appropriate leadership is in place at all levels of the organisation. The Committee also monitors Major Hazard safety performance through the analysis of appropriate key performance indicators and ensures that all necessary action is taken to correct underperformance and to ensure continuous improvement.

Principal risks and uncertainties

The Company's operations expose it to a variety of financial risks that include financial risk, foreign currency risk and credit risk.

Financial Risk

The most significant financial risks to which the Group is exposed are movements in oil and gas prices and interest rates. The Group considers that volatility in oil and gas prices and interest rates is a regular part of its business environment, so the Group does not systematically hedge through financial instruments to mitigate these risks.

Foreign currency risk

The Group's activities expose it to the financial risks of changes in foreign currency exchange rates. The Group considers that movements in foreign exchange are a regular part of its business environment. The Group accepts this foreign exchange risk and does not use foreign currency derivative instruments.

Credit risk

The Group's principal financial assets are cash and cash equivalents and intercompany receivables. The Group's counterparty risks in relation to its cash and cash equivalents are considered to be limited, because counterparties are financial institutions with high credit ratings assigned by international credit-rating agencies.

The credit risk on intercompany receivables is monitored by the Group's parent and balances as at 31 December 2018 are considered to be recoverable. There was no impairment of intercompany receivables in 2018.

The Group manages credit risk on sales through selling to one customer, Tüpras, with whom the Group has traded with since 2003. Tüpras reported cash and cash equivalents of $1,131 million as at 31 December 2018 (2017 : $2,320 million) and is expected to remain profitable going forward.

The impact of the UK's exit from the EU

Following the referendum in 2016, we have been assessing the potential impact of Brexit on the Group and do not anticipate a significant direct impact from Brexit on the Group`s activities. We remain alert to the impact any final deal will have on the macro economic conditions. Our assessment is that any direct impact from Brexit will be limited and do not pose a significant risk to Group`s activities.

On behalf of the board

A Eager

A Eager
Director
27 September 2019

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

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

Results and dividends
The results for the year are set out on page 9. No dividend is paid or proposed at the date of signing.

Subsequent events

There are no significant subsequent events that have occurred after 31 December 2018.

Future developments

The Company will continue to produce and sell petroleum and natural gas for the foreseeable future.

Principal risks and uncertainties

Information regarding principal risks and uncertainties is included in the strategic report which forms part of the directors report.

Directors
Throughout the year and up to the date of signing, the directors, who served throughout the year except as noted, were as follows:

N J Fallows
A Eager
J B Parr

Going concern
The Group's business activities, key financial, foreign currency and credit risks, performance and position are set out in the strategic report. The financial position of the Group is set out in the financial statements and related notes.

The Group is self-funding and therefore meets its day-to-day working capital requirements through net proceeds received from its oil and gas production.

On the basis of current financial projections and facilities available, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and, accordingly, consider that it is appropriate to adopt the going concern basis in preparing the financial statements.

Statement of disclosure to auditor
Each director in office at the date of approval of this annual report confirms that:

- so far as the director is aware, there is no relevant audit information of which the company auditor is unaware, and
- the director has taken all the steps that he / she ought to have taken as a director in order to make himself / herself aware of any relevant audit information and to establish that the company auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

On behalf of the board

A Eager

A Eager
Director
27 September 2019

DIRECTORS' RESPONSIBILITIES STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2018

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF PERENCO (OIL & GAS) INTERNATIONAL LIMITED

Report on the audit of the financial statements

Opinion

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 2018 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (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.

We have audited the financial statements of Perenco (Oil & Gas) International Limited (the 'parent company') and its subsidiaries (the 'group') 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 statement of changes in equity;
- the consolidated and parent company cash flow statements; and
- the related notes 1 to 26.

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.

Basis for opinion

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

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the statutory financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

the directors' use of the going concern basis of accounting in preparation of the statutory financial statements is not appropriate; or

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

We have nothing to report in respect of these matters.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the annual report , other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in respect of these matters.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the statutory financial statements

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

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

Report on other legal and regulatory requirments

Opinions on other matters prescribed by the Companies Act 2006

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

the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters 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.

We have nothing to report in respect of these matters.

Use of our report

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

William Brooks FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London

27 September 2019

PERENCO (OIL & GAS) INTERNATIONAL LIMITED

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 £'000	2017 £'000
Revenue	**4**	151,178	124,002
Cost of sales			
Production and operating costs	**5**	(73,407)	(73,532)
Other operating income:			
Gross profit		**77,771**	**50,470**
Administrative expenses	**6**	(7,168)	(4,867)
Operating profit		**70,603**	**45,603**
Finance income	**8**	6,369	3,033
Finance costs	**9**	(260)	(565)
Other gains and losses	**10**	(6,146)	3,350
Gain on disposal of assets		6	97
Share of loss of associate	**14**	(5,875)	-
Profit before taxation		**64,697**	**51,518**
Income tax expense	**11**	(20,450)	(9,280)
Profit for the financial year		**44,247**	**42,238**

The income statement has been prepared on the basis that all operations are continuing operations.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 £'000	2017 £'000
Profit for the financial year	**44,247**	**42,238**
Items that may be reclassified to profit or loss in subsequent periods		
Exchange differences on translation of foreign operations	17,011	(25,266)
Total comprehensive income for the year	**61,258**	**16,972**

The accompanying notes are an integral part of this consolidated statement of total comprehensive income.

PERENCO (OIL & GAS) INTERNATIONAL LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

	Notes	2018 £'000	2017 £'000
Non-current assets			
Property, plant and equipment	12	130,812	122,923
Investments	15	168,259	-
		299,071	122,923
Current assets			
Inventories	16	35,093	28,454
Trade and other receivables	17	199,015	133,791
Cash and cash equivalents		10,303	17,403
		244,411	179,648
Total assets		**543,482**	**302,571**
Current liabilities			
Trade and other payables	18	(193,590)	(16,922)
Current tax liabilities		(3,300)	(3,643)
		(196,890)	(20,565)
Non-current liabilities			
Deferred tax liabilities	20	(25,243)	(22,328)
Provisions	19	(4,680)	(4,267)
Total liabilities		**(226,813)**	**(47,160)**
Net assets		**316,669**	**255,411**
Equity			
Called up share capital	21	-	-
Retained earnings	14	240,144	195,897
Other reserves		76,525	59,514
Total equity		**316,669**	**255,411**

The financial statements were approved by the Board of directors and authorised for issue on 27 September 2019

Signed on its behalf by:

A Eager

A Eager
Director

Company Registration No. SC061143

PERENCO (OIL & GAS) INTERNATIONAL LIMITED

COMPANY ONLY STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

	Notes	2018 £'000	2017 £'000
Non-current assets			
Investment in associate	**14**	168,258	-
Investments	**15**	17,118	17,118
Fixed assets		5,000	-
		190,376	17,118
Current assets			
Trade and other receivables	**17**	22	25
Cash and cash equivalents		58	32
		80	57
Total assets		**190,456**	**17,175**
Trade and other payables	**18**	(180,398)	(31)
Total liabilities		**(180,398)**	**(31)**
Net assets		**10,058**	**17,144**
Equity			
Share capital	**21**	-	-
Retained earnings	**14**	10,058	17,144
Total equity		**10,058**	**17,144**

The company has chosen to apply section 408 of the Companies Act which provides an exemption from publication of the full Company only profit and loss account. The Company reported a loss for the financial year ended 31 December 2018 of £7,086k (2017: Loss of £124k).

The financial statements were approved by the Board of directors and authorised for issue on 27 September 2019

Signed on its behalf by:

A Eager

A Eager
Director

Company Registration No. SC061143

PERENCO (OIL & GAS) INTERNATIONAL LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

Consolidated	Share capital £'000	Retained earnings £'000	Other reserves £'000	Total equity £'000
At 1 January 2017	-	151,454	84,780	236,234
Profit for the year	-	42,238	-	42,238
Other comprehensive loss for the year	-	-	(25,266)	(25,266)
Total comprehensive income for the year	-	**42,238**	**(25,266)**	**16,972**
At 31 December 2017	-	195,897	59,514	255,411
Profit for the year	-	44,247	-	44,247
Other comprehensive income for the year	-	-	17,011	17,011
Total comprehensive income for the year	-	44,247	17,011	61,258
At 31 December 2018	-	**240,144**	**76,525**	**316,669**

Company	Share capital £'000	Retained earnings £'000	Total equity £'000
At 1 January 2017	-	17,268	17,268
Total loss for the year	-	(124)	(124)
Total comprehensive income for the year	-	**(124)**	**(124)**
At 31 December 2017	-	17,144	17,144
Total loss for the year	-	(7,086)	(7,086)
Total comprehensive loss for the year	-	(7,086)	(7,086)
At 31 December 2018	-	**10,058**	**10,058**

PERENCO (OIL & GAS) INTERNATIONAL LIMITED

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 £'000	2017 £'000
Net cash inflow from operating activities	**23**	**70,936**	**57,660**
Cash flows from investing activities			
Expenditure on development and production assets	**12**	(19,750)	(15,042)
Expenditure on other fixed assets	**12**	(5,297)	(117)
Fixed asset disposal proceeds		6	97
Advances paid to group undertakings		(59,553)	(58,521)
Interest received	**8**	6,369	3,034
Investment in associate	**14**	(174,134)	-
Net cash used in investing activities		**(252,359)**	**(70,549)**
Cash flows from financing activities			
Interest paid	**9**	(260)	(565)
Loan drawn from Group company		180,090	-
Net cash generated from/(used in) financing activities		**179,830**	**(565)**
Net decrease in cash and cash equivalents		**(1,593)**	**(13,454)**
Cash and cash equivalents at beginning of year		17,403	38,809
Effect of foreign exchange rate changes		(5,507)	(7,952)
Cash and cash equivalents at end of year		**10,303**	**17,403**

PERENCO (OIL & GAS) INTERNATIONAL LIMITED

COMPANY ONLY CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 £'000	2017 £'000
Net cash outflow from operating activities	**23**	**(105)**	**(83)**
Cash flows from investing activities			
Purchase of fixed assest		(5,000)	-
Investment in associate		(174,134)	-
Net cash used in investing activities		**(179,134)**	**-**
Cash flows from financing activities			
Interest received		80	-
Loan drawn from Group company		179,185	-
Interest paid		-	(2)
Net cash generated from/(used in) financing activities		**179,265**	**(2)**
Net increase/(decrease) in cash and cash equivalents		**26**	**(85)**
Cash and cash equivalents at beginning of year		32	117
Cash and cash equivalents at end of year		**58**	**32**

1 Accounting policies

1.1 General

Perenco (Oil & Gas) International Limited is a private company limited by shares, incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is: 2 Lochrin Square, 96 Fountainbridge, Edinburgh, EH3 9QA. The nature of the Company's operations and its principal activities are set out in the Strategic Report.

1.2 Accounting convention

The financial statements have been prepared in accordance with applicable International Financial Reporting Standards ("IFRSs") as adopted by the European Union. The accounting policies have been applied consistently across the Group, and consistently with prior years.

The financial statements have been prepared on the historical cost basis except for the revaluation of certain financial instruments and oil stock. The principal accounting policies adopted are set out below.

1.3 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved when the Company:

has the power over the investee;

is exposed, or has rights, to variable return from its involvement with the investee; and

has the ability to use its power to affects its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it considers that it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;

potential voting rights held by the Company, other vote holders or other parties;

rights arising from other contractual arrangements; and

any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

1 Accounting policies **(Continued)**

1.3 Basis of consolidation (continued)

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, the results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of the subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the Group are eliminated on consolidation.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. Those interests of non-controlling shareholders that are present ownership interests entitling their holders to a proportionate share of net assets upon liquidation may initially be measured at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement is made on an acquisition-by-acquisition basis. Other non-controlling interests are initially measured at fair value. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amount of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

When the Group loses control of a subsidiary, the gain or loss on disposal recognised in profit or loss is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest; and (ii) the previous carrying amount of the assets (including goodwill), less liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRS). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 'Financial Instruments: Recognition and Measurement'.

1.4 Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not in control or joint control over those policies.

Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost, being the fair value of consideration found at the acquisition date, and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate.

1 Accounting policies **(Continued)**

1.4 Investments in associates (continued)

When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as development and production assets, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of IAS 36 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

1.5 Oil and gas assets

The Group uses the full cost method of accounting for exploration, evaluation, development and production expenditure in relation to oil and gas assets, having regard to the requirements of IFRS 6 'Exploration for and Evaluation of Mineral Resources'. These costs are capitalised in separate geographical costs pools ("full cost pools") having regard to the operational structure of the Group.

Oil and gas assets: exploration and evaluation

Exploration and evaluation ("E&E") costs are initially capitalised as 'intangible assets', in accordance with IFRS 6. Such E&E costs may include costs of licence acquisition, technical services and studies, seismic acquisitions and exploration drilling and testing.

Tangible assets used in E&E activities are classified as property, plant and equipment. Intangible E&E assets are not depreciated and are carried forward until the existence (or otherwise) of proved reserves has been determined. If proved reserves have been discovered, the relevant E&E assets are then reclassified as development and production assets within property, plant and equipment and depreciated using the method described below. Intangible E&E assets that are determined not to have resulted in the discovery of proved reserves and cannot be associated with an established full cost pool are written off at the date of determination, whereas those that are associated with an established pool are carried forward and amortised over the total reserves of the pool, subject to there being no impairment of the pool as a whole.

Development and production assets are accumulated under the principle of full cost accounting on a field-by-field basis and represent the cost of developing proved reserves discovered and bringing them into production, together with the exploration and evaluation expenditures incurred in finding proved reserves.

The net book values of producing assets are depreciated on a field-by-field basis or across those fields that share common facilities using the unit of production method by reference to the ratio of production in the period to the related proved reserves of the field.

1 Accounting policies **(Continued)**

1.5 Oil and gas assets (continued)

Impairment of oil and gas assets (ceiling test)

A ceiling test is carried out if there is a significant reason for the directors to believe that impairment could have occurred. This test is to assess whether the carrying amount of each field or full cost pool (as applicable) exceeds the recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell, and its value in use as defined by IAS 36 'Impairment of assets'. The fair value less cost to sell is determined by discounting the anticipated post-tax net cash flows at a risk adjusted discount rate using proved and probable reserves. Where a fair value less cost to sell method is used, the carrying amount includes any deferred tax asset or liability associated with the capitalised costs in the cost pool. Any deficiency arising under this comparison is recognised in the income statement. An impairment test for an exploration and evaluation asset is conducted on a full cost pool basis. An impairment test of a development or production asset is undertaken for the particular cash generating unit which is generally the field.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the assets no longer exist or have decreased. The reversal is recorded in the income statement.

1.6 Other tangible fixed assets

Other tangible fixed assets are carried at cost less accumulated depreciation, less estimated residual value and any provision for impairment. Depreciation is charged using the straight-line method over estimated useful lives as follows:

Freehold premises	20 years
Leasehold improvements	10 years or the life of the lease if shorter
Equipment and vehicles	3–10 years

Freehold land is not depreciated.

1.7 Joint arrangements

The Group is engaged in oil and gas exploration, development and production through unincorporated joint arrangements; these are classified as joint operations in accordance with IFRS 11. The Group accounts for its share of the results and net assets of these joint operations. In addition, where the Group acts as operator to the joint operation, the liabilities and receivables (including amounts due to or from non-operating partners) of the joint operation are included in the Group balance sheet.

1.8 Oil and gas overlift and underlift

Underlifts of entitlement to crude oil production are recorded within crude oil inventory and overlifts within other payables, both measured at market value, consistent with the crude oil inventory valuation policy.

1 Accounting policies **(Continued)**

1.9 Revenue recognition

Revenue represents the value of sales exclusive of related sales' taxes of oil and gas arising from upstream operations, and is recognised at market value when the oil has been lifted and/or delivered through pipelines or the gas has been delivered and the significant risks and rewards of ownership of the goods have been transferred. The Group's accounting policy under IFRS 15 is that revenue is recognised when the Group satisfies a performance obligation by transferring oil or gas to a customer.The title to oil and gas typically transfers to a customer at the same time as the customer takes physical possession of the oil or gas. Typically, at this point in time, the performance obligations of the Group are fully satisfied. The accounting for revenue under IFRS 15 does not, therefore, represent a substantive change from the Group's previous accounting policy for recognising revenue from sales to customers.

Interest income is recognised as the interest accrues using the effective interest method (applying the rate that exactly discounts estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset).

Dividend income from investments, held at cost, is recognised when the shareholders receive payment.

1.10 Royalties

Royalties payable are charged to cost of sales.

1.11 Inventories

Crude oil inventory is carried at market value in accordance with specific exclusions applicable to mineral products under IAS 2 'Inventory'.
Materials, suppliers and all other non-mineral inventories are stated at the lower of weighted average cost and net realisable value. The Group reviews annually the stock of material for obsolescence and a provision on obsolete stock is made accordingly.

1.12 Foreign currencies

The financial statements have been presented in Pounds Sterling, which is the functional currency of the company. Transactions in currencies other than Pounds Sterling are recorded at the relevant rate of exchange prevailing at the date of the transaction. Monetary assets and liabilities denominated in currencies other than Pounds Sterling at the balance sheet date are reported at the rates of exchange prevailing at that date. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the income statement.

The assets and liabilities of subsidiaries with functional currencies other than the Pounds Sterling are translated into Pounds Sterling at the rates of exchange ruling at the balance sheet date. The results of subsidiaries are translated into Pounds Sterling at the average rates of exchange for the year. Differences on exchange arising from the translation of the net investment in foreign subsidiaries at the balance sheet date are taken directly to reserves.

1 Accounting policies **(Continued)**

1.13 Taxation

The tax expense represents the sum of the charges and credits for current and deferred tax.

Current tax payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are non-taxable or deductible. Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.
Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Deferred tax is recognised at acquisition as part of the assessment of fair value of assets and liabilities acquired.

Other taxes, which include value added tax and sales tax, represent the amount receivable or payable to local authorities in the countries where the Company operates and are charged to the income statement.

1 Accounting policies **(Continued)**

1.14 Financial instruments

Financial assets and liabilities are recognised on the Group's balance sheet when the Group becomes party to contractual provisions of the instrument. The Group has not entered into any derivative financial instruments during the year presented.

1) Cash and cash equivalents

Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprises cash at bank.

2) Trade receivables

Trade receivables represent amounts owed for the sale of oil and gas. The carrying value of these assets is approximate to their fair value.

3) Trade payables

Trade payables principally comprise amounts outstanding for trade purchase and ongoing costs. The carrying amounts of trade payables approximates to their fair value.

1.15 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those (when the effect of the time value is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

1.16 Going concern

The directors have at the time of approving the financial statements, a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

1 Accounting policies **(Continued)**

1.17 Investments in subsidiaries

Investments in subsidiaries, are initially recorded at acquisition cost. Write–downs are recorded if, in the opinion of the management, there is any impairment in value.

The initial cost of the 100% investment of N.V. Turkse Perenco ("NVTP") was $17,117k (note 15)

Dividend income is recognised as revenue when the Company's right to receive the payment is established.

All purchases and sales of investments are recognised on the settlement date, which is the date when the investment is delivered to or by the Company.

2 Adoption of new and revised standards and changes in accounting policies

In the current year, the following new and revised Standards and Interpretations have been adopted by the Group. The directors note that no impact on the presentation of the financial statements has occurred during the year through adopting the following standards.

The adoption of these Standards and Interpretations has not had any significant impact of the amounts reported in these financial statements but may impact the accounting for future transactions and arrangements.

IFRS 9	Financial instruments
IFRS 15	Revenue from contracts with customers
Amendments to IFRS 1 and IAS 28	IFRS Standards 2014-2016 cycle

Standards which are in issue but not yet effective

At the date of authorisation of these financial statements, the following Standards and Interpretations, which have not yet been applied in these financial statements, were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

IFRS 16	Leases
IFRIC 23	Uncertainty over income tax treatments
Amendments to IAS	Plan amendment, curtailment or settlement (amendments to IAS 19)
Amendments to IAS 28	Long-term interests in associates and joint ventures (amendments to IAS 28)
Amendments to IFRS 9	Prepayment features with negative compensation (amendments to IFRS 9)
2015-2017 cycle	Annual improvements to IFRS

The classification and measurement of financial assets have changed with the implementation of IFRS 9 during 2018. However, this has not materially changed the measurement of financial assets of the Group. The IFRS 9 impairment model requiring the recognition of 'expected credit losses', in contrast to the requirement to recognise 'incurred credit losses' under IAS 39, has not had a material impact on the Group's Financial Statements. Trade receivables are generally settled on a short time frame and the Group's other financial assets are due from counterparties without material credit risk concerns at the time of transition.

Similarly, the implementation of IFRS 15 during the year has had no material impact on the Group's financial statements. All revenue derived from the overlifting of oil has, historically, been classified within cost of sales, and thus no further segmented disclosure is required in the Group's revenue note.

2 Adoption of new and revised standards and changes in accounting policies (Continued)

IFRS 16 has not yet been implemented. Its implementation in 2019 will, however, have an effect on both the measurement and disclosures of items within the financial statements.

IFRS 16 changes the definition of a lease and provides guidance on how to apply this new definition. IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. The adoption of IFRS 16 Leases, which the Group will adopt for the year commencing 1 January 2019, will impact both the measurement and disclosures of leases over a low-value threshold, with terms longer than one year, but exclude any leases to explore for oil and gas (i.e. mineral rights). On adoption of IFRS 16, the Group will recognise lease liabilities in relation to leases which are currently classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities will be measured at the present value of the remaining lease payments, discounted using the interest rate implicit in the lease (if available).

The Group has completed an assessment of contracts and estimated the impact on this change to lease accounting. The implementation of the changes would not materially impact the Consolidated Income Statement and Statement of financial position, as no contracts containing a lease under IFRS 16 were identified.

3 Critical accounting judgements and key sources of estimation uncertainty

Key sources of estimation uncertainty

In the process of applying the Group's accounting policies, which are described in note 1, the directors have considered the following estimations. These are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, which are discussed below.

a. Reserves

Development and production assets within property, plant and equipment are depreciated on a unit of production basis at a rate calculated by reference to proved developed producing reserves estimated using the standards required by the US Securities Exchange Commission ("SEC"). Proved reserves estimates are based on a number of underlying assumptions, including oil and gas prices, future costs, oil and gas in place and reservoir performance, which are inherently uncertain. Proved reserves estimates are supported by reserves reports for the Group which are reviewed by independent petroleum reservoir engineers.

The level of estimated commercial reserves is also a key determinant in assessing whether the carrying value of any of the Group's development and production assets has been impaired.

b. Recoverability of production and development assets

Under the full cost method of accounting for production and development costs, such costs are capitalised by reference to appropriate cost pools, and are assessed for impairment when circumstances suggest that the carrying amount may exceed its recoverable value. This assessment involves judgement as to (i) the likely life of the field, (ii) future revenues and operating costs with which the asset in question is associated, (iii) the discount rate to be applied to such revenues and costs for the purpose of deriving a recoverable value, and (iv) the oil price assumption. Note 12 discloses the carrying amounts of the Group's production and development assets.

4 Revenue

An analysis of the company's revenue is as follows:

	2018 £'000	2017 £'000
Oil sales	151,178	124,002
Finance income (note 8)	6,369	3,033
Total operating and financial income	157,547	127,035

5 Cost of sales

	2018 £'000	2017 £'000
Operating costs	28,933	34,822
Royalties	20,093	15,117
Depletion, depreciation and amortisation (note 12)	24,381	23,593
	73,407	73,532

6 Administrative expenses

	2018 £'000	2017 £'000
General administration costs	7,149	4,849
Fees payable to the company's auditor and their associates for the audit of the group's annual accounts	19	18
	7,168	4,867

7 Staff costs

	2018 £'000	2017 £'000
Wages and salaries	5,799	6,706
Social security costs	1,924	2,595
Other costs	465	449
	8,188	9,750

During the year, the average monthly number of staff (excluding directors) employed by the Group was:

	2018 Number	2017 Number
Operations	152	152
Administration	27	30
	179	182

None of the employees were employed by the Company.

None of the directors are employees of the Company and the directors received no remuneration from the Company during the period. It is not practicable to allocate their remuneration between their services for the Company during the period and their services for other Perenco Group companies.

8 Finance income

	2018 £'000	2017 £'000
Interest receivable on cash deposits	1,729	1,006
Interest receivable on loans to other Group undertakings (note 24)	4,640	2,027
Total finance income	6,369	3,033

The interest receivable on loans to other group undertakings comprise the interest calculated on advances to Perenco S.A., the Company's immediate parent undertaking. The advances are denominated in US dollars with an interest rate of USD twelve month LIBOR plus 1% and are repayable on demand.

9 Finance costs

	2018 £'000	2017 £'000
Other interest payable	260	565
	260	565

10 Other gains and losses

	2018 £'000	2017 £'000
Foreign exchange (losses)/gains	(6,146)	3,350
	(6,146)	3,350

11 Income tax expense

	2018 £'000	2017 £'000
Corporation tax		
Current year	18,854	12,003
Deferred tax		
Origination and reversal of temporary differences (note 20)	1,596	(2,723)
Total tax charge	**20,450**	**9,280**

The charge for the year can be reconciled to the profit per the income statement as follows:

	2018 £'000	2017 £'000
Profit before taxation on continued operations	64,697	51,518
Profit on ordinary activities before taxation multiplied by standard rate of Turkish corporation tax of 22.00% (2017 - 20.00%)	14,233	10,304
Taxation impact of factors affecting tax charge:		
Expenses not deductible in determining taxable profit	6,624	(397)
Income not taxable	(4,635)	(75)
Surplus cash transfer tax	112	264
Other differences	4,116	(816)
Total adjustments	6,217	(1,024)
Tax charge for the year	**20,450**	**9,280**
Effective tax rate	32%	18%

In Novemebr 2017, Turkish Government announced a series of changes to the Corporate Tax Law number 5520. Notably, corporate tax have increased from 20% to 22% for 2018, 2019 and 2020 financial years.

12 Property, plant and equipment

	Exploration and development cost £'000	Other £'000	Total £'000
Cost			
At 1 January 2017	367,378	3,475	370,853
Additions	15,042	117	15,159
Disposals	-	(7)	(7)
Exchange movements	(33,453)	(314)	(33,767)
At 31 December 2017	348,967	3,271	352,238
Additions	19,750	5,297	25,047
Disposals	-	(107)	(107)
Exchange movements	20,353	193	20,546
At 31 December 2018	389,070	8,654	397,724
Depletion, depreciation and amortisation			
At 1 January 2017	225,270	1,783	227,053
Charge for the year	23,193	400	23,593
Disposals	-	(7)	(7)
Exchange movements	(21,166)	(158)	(21,324)
At 31 December 2017	227,297	2,018	229,315
Charge for the year	23,976	405	24,381
Exchange movements	13,603	(280)	13,323
Disposals	-	(107)	(107)
At 31 December 2018	264,876	2,036	266,912
Carrying amount			
At 31 December 2018	124,194	6,618	130,812
At 31 December 2017	121,670	1,253	122,923

As at 31 December 2018, exploration and development assets totalling £53.6 million (2017: £53.3 million) were not depleted, pending commencement of production.

13

Details of the Group's material associates at the end of the reporting year are as follows:

Name of associate	Principal activity	Place of incorporation and principal place of business	Proportion of ownership interest/ voting rights held by the Group
			31/12/2018
Mexico			
Main shareholdings			
Petrofac Netherlands Holdings B.V.	Holding company	Netherlands	49%
Petro Oil and Gas Limited	Lending company	Mexico	49%
Secondary shareholdings (all incorporated under Petrofac Netherlands Holdings B.V.)			
Petrofac Mexico S.A. de C.V.	Exploration for and production of oil & gas	Mexico	49%
Petrofac Mexico Servicios S.A. de C.V.	Exploration for and production of oil & gas	Mexico	48.5%
H&L SPD Américas SAPI de C.V.	Exploration for and production of oil & gas	Mexico	44.1%

Mexico

The company completed the acquisition for a group of companies, operating in Mexico, from Petrofac Ltd. on the 18th October 2018, with main shareholdings of 49% acquired in Petrofac Netherlands Holdings B.V. and Petro oil and gas limited respectively. The provisional fair value consideration for the companies acquired was £174.1 m (note 14).

In accordance with IAS 28 the investment has been measured initially at cost, being the provisional fair value of consideration, and then adjusted thereafter for the post-acquisition change in the Groups share of the investee's net assets. The loss attributable to the investment, post-acquisition, amounts to £5.9 m and as such the investment held has been reduced by this amount. See note 14. No dividend was received during 2018.

14 Investment in associate

	2018 £'000
Balance at 1 January	-
Cost of investment in Petrofac Holdings Netherlands B.V.	174,134
Share of loss of associate	(5,875)
	168,259

The provisional fair value amounts amounts booked with respect to the Group's investment in Petrofac Netherlands B.V. have been disclosed in note 13.

The balance sheet and profit and loss for the Group's investment in Petrofac Netherlands B.V., accounted for as an associate, are analysed as follows:

	2018 £'000
Total assets	(1,846,166)
Total liabilities	1,485,672
	(360,495)
Revenue contributed since acquisition	(33,970)
Net loss for the period since acquisition	**(11,862)**

15 Investments

	Notes	Cost and net book value Group £'000	Company £'000
At 1 January 2017		-	17,118
At 1 January 2018		-	17,118
Investments in associates	15	168,259	168,259
At 31 December 2018		168,259	185,377

15 Investments (Continued)

The Company owns 100% of the ordinary share capital of N.V. Turkse Perenco ("NVTP"), incorporated in The Netherlands (Registered address; LunA ArenA,Herikerbergweg 238, 1101 CM Amsterdam, The Netherlands). The principal activity of that Company is exploration for and production of oil and gas in Turkey.

Since 2006, the Company had owned 17.5% of Baripetrol, a Company with operations in Venezuela. Due to the fact that the Group does not expect any future cash flows to arise from the investment in Baripetrol SA the investment is currently recorded at £nil.

The company completed the acquisition for a 49% interest in a group of companies, operating in Mexico, from Petrofac Ltd. on the 18th October 2018, with main shareholdings acquired in Petrofac Netherlands Holdings B.V. and Petro oil and gas limited. The provisional fair value consideration for the companies acquired was £174.1 m (note 14).

In accordance with IAS 28 the investment has been measured initially at cost, being the provisional fair value of consideration, and then adjusted thereafter for the post-acquisition change in the Groups share of the investee's net assets. The loss attributable to the investment, post-acquisition, amounts to £5.9 m and as such the investment held has been reduced by this amount. See note 14. No dividend was received during 2018.

On 19 September 2019 the company signed an agreement to acquire the remaining 51% interest in Petrofac Netherlands Holdings B.V. and Petro oil and gas limited. Under the terms of the agreement, the company will pay an initial £30.1 million upon signing and a further minimum payment of £66.1 million upon completion. The total consideration of up to £221.3 million comprises a fixed amount and a series of contingent amounts that depend upon future milestones, including field development, commercial, service contract transition and fiscal terms, and is subject to the level of achievement of the milestones above. The transaction is subject to regulatory approval and is expected to complete in 2020.

16 Inventories

	2018 £'000	2017 £'000
Crude oil	17,885	14,537
Materials and supplies	26,599	22,928
Materials and supplies - provision for obsolete stock	(9,391)	(9,011)
	35,093	28,454

The movement in crude oil inventory is included within production and operation costs. In 2018, the Group recognised a net gain of £2.4 million (2017: £0.8 million gain) on oil stock movements including adjustments for under/overlift.

The Group maintains a provision for obsolete materials and supplies, as stated above, based on specific potential obsolescence identified or of the age of the items, to account for items that may not be used in future. The movement in the year has been recognised directly through the income statement.

17 Trade and other receivables

	Group		Company	
	2018	**2017**	**2018**	**2017**
	£'000	**£'000**	**£'000**	**£'000**
Trade receivables	19,119	20,590	22	25
Other receivables	2,158	3,666	-	-
Amounts due from related parties (note 24)	176,735	108,472	-	-
Prepayments	1,003	1,063	-	-
	199,015	133,791	22	25

100% of the Company's trade receivables are not past due (2017: 100%).

An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. The IFRS 9 impairment model requiring the recognition of 'expected credit losses', in contrast to the requirement to recognise 'incurred credit losses' under IAS 39, has not had an impact on the calculation of the Group's provision for bad debt during the period.

The amounts owed by other Group undertakings comprise advances to Perenco S.A., the Company's immediate parent undertaking. The advances are denominated in US dollars with an interest rate of USD twelve month LIBOR plus 1% and are repayable on demand.

The directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value.

18 Trade and other payables

	Group		Company	
	2018	**2017**	**2018**	**2017**
	£'000	**£'000**	**£'000**	**£'000**
Trade payables	5,116	9,635	-	-
Taxation (other than corporate)	3,472	3,248	-	-
Other payables	125	57	-	-
Accruals	4,253	3,105	337	31
Amounts due to related parties (note 24)	180,624	877	180,062	-
	193,590	16,922	180,399	31

Amounts owed to related parties are non-interest bearing and include a non-interest bearing loan of $175,081k from Perenco S.A.

19 Provisions for liabilities and charges (Group)

The movements on the provisions for the Group during the year were as follows:

	Retirement obligations £'000	Claims and disputes £'000	Total £'000
At 1 January 2017	**3,487**	**1,258**	**4,745**
Utilisation of provision	114	(172)	(58)
Foreign exchange difference	(316)	(104)	(420)
At 1 January 2018	**3,285**	**982**	**4,267**
Utilisation of provision	405	(238)	167
Foreign exchange difference	201	45	246
At 31 December 2018	**3,891**	**789**	**4,680**

Retirement obligations

Under Turkish Labour Law, the Group is required to pay employment termination benefits to each employee who has been employed by the Company for 12 months. The amount payable consists of one month's salary limited to a maximum of £805 (31 December 2017: £959) for each period of service at 31 December 2018. In accordance with IAS 19 the provision represents the present value of the future probable obligation of the group.

Claims and disputes

The provision at 31 December 2018 relates to various ongoing cases at the end of the year which are expected to be resolved within 5 years.

20 Deferred tax (Group)

Deferred tax liability

	2018 £'000	2017 £'000
Balance at the beginning of the year	22,328	27,363
Charge / (Credit) to the income statement (note 11)	1,596	(2,723)
Exchange differences	1,319	(2,312)
	25,243	22,328

Deferred tax analysis

The deferred taxation balances are analysed as follows according to the nature of the temporary differences:

	2018 £'000	2017 £'000
Property, plant and equipment	26,495	23,191
Provisions	(1,595)	(2,656)
Crude oil stock	343	1,793
Net deferred tax liability provided	25,243	22,328

Deferred tax assets are recognised for unused tax credits and unused tax losses to the extent that it is probable that taxable profits will be available against which the carried forward unused tax credits and tax losses can be utilised.

21 Equity

Called up share capital

	Group 2018 £	Group 2017 £	Company 2018 £	Company 2017 £
Authorised				
1,000 (2017: 1,000) ordinary shares of £1 each	1,000	1,000	1,000	1,000
Allotted, called up and fully paid				
100 (2017: 100) ordinary shares of £1 each	100	100	100	100

Other reserves

Other reserves mainly comprise the foreign currency translation reserve.

22 Financial Instruments

Financial risk management

The Group monitors and manages the financial risks relating its operations on a continuous basis. These include oil and gas price risk, credit and liquidity risks. The Group's significant financial instruments are trade and other receivables and trade payables.

Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern whilst maximising return to shareholders. The capital structure of the Group consists of intercompany amounts borrowed from the Parent company as disclosed in note 18, cash and equivalents, and equity attributable to equity holders of the Group, comprising issued capital, reserves and retained earnings.

The Group had no external borrowings at 31 December 2018 (2017: £nil).

Oil price risk

The Group generally considers the volatility of the oil price to be part of its business environment.

Interest rate risk

The Group has cash and cash equivalent balances, on which it earns deposit interest income. Other than placing sums on deposit at fixed rates for varying maturity periods, no financial instruments are used to manage the risk of interest rate volatility. Interest rate risk is not considered to be significant risk in the context of the Group given the immaterial amounts involved.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group.

The Group manages credit risk on sales through selling to one customer, Tüpras, with whom the Group has traded with since 2003.

The carrying amount of financial assets recorded in the financial statements represents the Group's maximum exposure to credit risk without taking account of any collateral obtained.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, who have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining loan facilities from its intermediate parent company and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial debts and liabilities.

Maturity analysis for financial liabilities is shown on the next page.

22 Financial Instruments **(Continued)**

Categories of financial instruments

The Group's financial instruments, grouped according to the categories defined in IAS 39 'Financial instruments: Recognition and Measurement', were as follows:

Group	**2018**	**2017**
	£'000	**£'000**
Financial assets		
Loans and receivables (including cash and cash equivalents)	209,318	151,194
Financial liabilities		
Financial liabilities measured at amortised cost	(190,118)	(13,674)
	19,200	137,520

Company	**2018**	**2017**
	£'000	**£'000**
Financial assets		
Loans and receivables (including cash and cash equivalents)	80	57
Financial liabilities		
Financial liabilities measured at amortised cost	(180,398)	(31)
	(180,318)	26

There were no financial instruments measured subsequent to initial recognition at fair value and accordingly no analysis of the level of the degree to which the fair value is observable has been provided. The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

Group	**Less than 1 month**	**1-3 months**	**3 months to 1 year**	**1 to 5 years**	**2018**	**2017**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
31 December 2018						
Non - interest bearing	(9,914)	-	(180,204)	-	(190,118)	(13,674)
Company						
31 December 2018						
Non - interest bearing	(336)	-	(180,062)	-	(180,398)	(31)

23 Notes to the cash flow statement

Reconciliation of operating profit to cash generated by operations

Consolidated	**Note**	**2018 £'000**	**2017 £'000**
Cash flows from operating activities			
Operating profit		70,603	45,603
Adjustments for:			
Depreciation, depletion and amortisation	**12, 5**	24,381	23,593
Operating cash flow prior to working capital changes		94,984	69,196
Increase/(Decrease) in inventories		(4,839)	3,785
Decrease / (increase) in receivables		4,274	(13,321)
(Decrease) / increase in creditors		(4,796)	10,058
Increase / (Decrease) in provisions		167	(55)
Income tax paid		(18,854)	(12,003)
Net cash from operating activities		70,936	57,660

Company Only	**2018 £'000**	**2017 £'000**
Cash flows from operating activities		
Operating loss	(385)	(123)
Operating cash flow prior to working capital changes	(385)	(123)
Decrease in receivables	3	26
Increase in creditors	277	14
Net cash from operating activities	(105)	(83)

Cash and cash equivalents (which are presented as a single class of assets on the face of the Consolidated balance sheet) comprise cash at bank and other short-term liquid investments with a maturity of three months or less.

The Group's cash balances are held substantially by the Turkish branch in Turkish Lira and US Dollars. Under Turkish Law, the transfer of cash to other countries is subject to permission by the Treasury of the Republic of Turkey.

24 Related party transactions

During the year, the Company and its subsidiary undertaking were recharged salaries, other related employment costs, and third-party costs borne on its behalf as below by affiliated companies and its parent company. The Group also charged interest to its direct parent company on advances bearing interest.

	Charge for year 2018 £'000	Charge for year 2017 £'000	Debtor/ (creditor) 2018 £'000	Debtor/ (creditor) 2017 £'000
Charge by affiliated companies				
Perenco S.A.				
Perenco Holdings	(584)	(455)	(58)	(43)
Perenco Colombia Limited	(29)	(8)	-	(8)
Perenco Tunusia	(60)	-	(63)	-
Perenco Guatemala Limited	-	(43)	-	-
Perenco	(1,582)	(2,436)	(283)	(826)
Perenco Brazil	-	-	(4,989)	-
Perenco UK	-	-	25	-
Total	(2,255)	(2,942)	(5,368)	(877)
Loan receivable from/payable to affiliated company				
Perenco S.A. (notes 8 & 17)	4,640	2,027	176,735	108,472
Perenco S.A. (notes 18)	(133)	-	(175,216)	-
	4,507	2,027	1,519	108,472
Transactions with joint venture partners	2,874	-	3,187	-

25 Commitments and guarantees

Commitments

At 31 December 2018 the Company and its subsidiaries have committed to spend £4.7 million (2017: £20.0 million) on exploration projects under the terms of its license.

Guarantees

As at 31 December 2018 the Company and its subsidiaries has granted guarantees amounting to £2.1 million (2017: £0.4 million).

26 Events after the reporting date

On 19 September 2019 the company signed an agreement to acquire the remaining 51% interest in Petrofac Netherlands Holdings B.V. and Petro Oil and Gas Limited.
The company paid a deposit of £30.1 million on 19 September 2019. The total consideration comprises a fixed amount and a series of contingent amounts that depend upon future milestones, including field development, commercial, service contract transition and fiscal terms, and is subject to the level of achievement of the milestones above. The transaction is subject to regulatory approval and is expected to complete in 2020.

27 Controlling party

Perenco S.A., a company incorporated in the Bahamas, is the parent undertaking of the smallest Group which includes the Company and for which Group accounts are prepared. Perenco International Limited, a company incorporated in the Bahamas, is the parent undertaking of the largest Group which includes the Company and for which Group accounts are prepared. The accounts of Perenco S.A. and Perenco International Limited are not available to the public. The ultimate controlling party is the Perrodo family and trusts for their benefit.