

Parsons Peebles Generation Limited

Annual report and financial statements

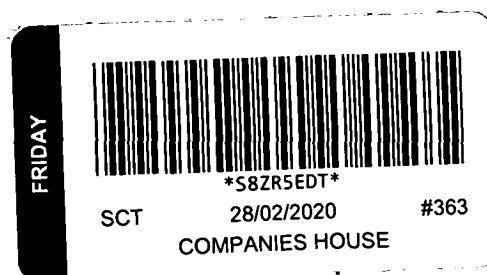
Registered number SC281567

31 December 2018

**COMPANIES HOUSE
EDINBURGH**

28 FEB 2020

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Strategic report

The directors present their Strategic Report for the year ended 31 December 2018.

Principal activities

The principal activity of the Company in the period under review was that of the design, manufacture, installation, commissioning, provision of refurbishment, servicing and repairs of high voltage electric motors, generators and associated equipment. The Company also carries out high voltage testing services.

Business review

Turnover in 2018 was 9% higher than in the previous year. Turnover in the Original Equipment business was well up on 2017, however the service contract part of the business was slightly down. The Company's trading performance was impacted by tight margins in the Original Equipment business, which along with some operational issues led to a significant reduction in overall margins for the year and adversely impacted the trading result. To address these issues there was a change in the management team and a strong focus on systems, processes and cost reduction to ensure the business is properly positioned to take advantage of growth opportunities going into 2019.

The Company delivered a loss before tax for the year of £2,419,000 (2017: loss of £1,188,000). The directors are satisfied with the performance of the Company, the areas of improvement undertaken (as described above) and given current activity levels and investment in the business, believe that the Company is well placed to deliver an enhanced trading performance during 2019.

Principle risks and uncertainties

The principal risks and uncertainties that affect the business are outlined below:

- **Health & Safety:** The Company's work environment presents various potential risks which are mitigated by providing clear guidance on appropriate procedures supported by regular training and supervision. Health and safety is on the agenda at all levels within the Company. Quality personnel are embedded in the business and risk is managed and assessed continuously.
- **Global economic and market conditions:** the risk of a prolonged economic downturn remains compounded by political events. This could lead to a financial decline impacting on industrial markets. The potential impact is reduced as the Company operates in diverse end markets and geographies, supplying mission critical products and services, and currently has a small share of the total market which will not restrict growth going forward.
- **Original Equipment:** orders received in the Original Equipment revenue stream tend to be larger and more irregular in nature potentially leading to periods of low or no bookings which can impact revenues and profits from this value stream. Recently the business has realigned the focus to critical niche products that reflect the resource and probability of success which mitigates the impact of such fallow periods.
- **Human resources:** people are the Company's greatest asset and most significant cost item. There is a continuing reliance on high calibre employees as the organisation grows. To deliver the high level of bookings, increased capacity and capability is required. Detailed plans are in place.

Strategic report (continued)

Principle risks and uncertainties continued

- Suppliers: the quick supply of quality materials is important for the Company. There are long term contracts with key suppliers as well as a broad supply chain base to minimise the impact.
- End markets: the Company operates in the oil & gas sector which has experienced challenges in recent years. The risk faced by the Company is significantly diversified as there is increasing activity in other markets e.g. power, water and industrial.
- Business infrastructure: the Company uses various software and IT systems which are a legacy of previous acquisitions. A new ERP system initially put on hold is being implemented in the Company to harmonise the financial and operating platforms and is expected to be in place by early 2020.

Political and charitable contributions

The Company made no disclosable political or charitable donations or incurred any disclosable political expenditure during the year.

By order of the board



Patrick J Mennie
Director
27th February 2020

Ground Flat East
120 Bothwell Street
Glasgow
G2 7JL

Directors' report

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

Financial instruments

The Company's policy is to use complex financial instruments only where appropriate.

Dividends

Dividends paid in the period were nil (2017: nil).

Directors

The directors who held office during the year and up to date of approval were as follows:

NG Black (resigned 29 June 2018)

FG Barrett (resigned 1 May 2018)

GJ McCallum (resigned 23 January 2018)

SR Macintosh (appointed 27 April 2018; resigned 4 May 2018)

GL Roberts (appointed 4 May 2018)

AJ Greenan (appointed 29 June 2018; resigned 31 January 2020)

PJ Mennie (appointed 7 January 2020)

Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the board



Patrick J Mennie

Director

27th February 2020

Ground Flat East
120 Bothwell Street
Glasgow
G2 7JL

Statement of directors' responsibilities in respect of the Strategic report, the Directors' report and the financial statements

The directors are responsible for preparing the Strategic Report, the Directors' 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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice) including FRS 101 *Reduced Disclosure Framework*.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Independent auditor's report to the members of Parsons Peebles Generation Limited

Opinion

We have audited the financial statements of Parsons Peebles Generation Limited ("the company") for the year ended 31 December 2018 which comprises the Income Statement, Balance Sheet, Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, such as recoverability of goodwill and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and its effects are subject to unprecedented levels of uncertainty of consequences, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Material uncertainty related to going concern

We draw attention to note 1.2 to the financial statements which indicates that the company's ability to continue as a going concern is dependent on group support, however there is a material uncertainty as to whether the group will be able to provide the necessary support. This is because the group is working towards a plan to repay its outstanding bank debt received through an extension to its term loan and revolving credit facility to 31 March 2021.

The actions required will include disposal of part or all of the group and these disposals are not entirely within the control of the directors. These events and conditions, along with the other matters in note 1.2 constitute a material uncertainty that may cast significant doubt on the company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Independent auditor's report to the members of Parsons Peebles Generation Limited (continued)

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 4 the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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.



**Bruce Marks (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor**

Chartered Accountants
319 St Vincent Street
Glasgow
G2 5AS

28 February 2020

Income Statement

For the year ended 31 December 2018

	<i>Note</i>	2018	2017
		£000	£000
Revenue	2	5,655	5,167
Cost of sales		(6,216)	(4,389)
Gross profit		(561)	778
Administrative expenses		(1,571)	(2,424)
Management charges		(212)	408
Operating loss	3	(2,344)	(1,238)
Finance (expense)/income	6	(75)	50
Net financing expense		(75)	50
Loss before tax		(2,419)	(1,188)
Taxation	7	38	4
Loss for the year		(2,381)	(1,184)

The Company has no other comprehensive income for the current and previous period.

The results above relate to continuing operations.

The notes on pages 10 to 25 form an integral part of these financial statements.

Balance Sheet

as at 31 December 2018

	<i>Note</i>	2018 £000	2017 £000
Non-current assets			
Property, plant and equipment	8	143	208
Intangible assets	9	-	-
		<u>143</u>	<u>208</u>
Current assets			
Inventories	11	732	1,899
Trade and other receivables	12	4,511	2,724
Cash and cash equivalents		448	160
		<u>5,691</u>	<u>4,783</u>
Total assets		<u>5,834</u>	<u>4,991</u>
Current liabilities			
Trade and other payables	13	7,724	5,490
Tax payable		-	10
		<u>7,724</u>	<u>5,500</u>
Total liabilities		<u>7,724</u>	<u>5,500</u>
Net liabilities		<u>(1,890)</u>	<u>(509)</u>
Equity			
Share capital	15	500	500
Share Premium	15	1,000	-
Retained earnings		(3,390)	(1,009)
Total equity		<u>(1,890)</u>	<u>(509)</u>

The notes on pages 10 to 25 form an integral part of these financial statements.

These financial statements were approved by the board of directors on 27th February 2020 and were signed on its behalf by:



Patrick J Mennie

Director

Registered number SC281567

Statement of Changes in Equity

	Share Capital £000	Share Premium £000	Retained Earnings £000	Total equity £000
Balance at 1 January 2017	500	-	175	675
Total comprehensive income for the period				
Loss for the period	-	-	(1,184)	(1,184)
Total comprehensive income for the period	500	-	(1,009)	(509)
Balance at 31 December 2017	500	-	(1,009)	(509)

	Share Capital £000	Share Premium £000	Retained Earnings £000	Total equity £000
Balance at 1 January 2018	500	-	(1,009)	(509)
Total comprehensive income for the period				
Loss for the period	-	-	(2,381)	(2,381)
Share Premium arising on capitalisation of inter-company loan	0	1,000	-	1,000
Total comprehensive income for the period	500	1,000	(3,390)	(1,890)
Balance at 31 December 2018	500	1,000	(3,390)	(1,890)

The notes on pages 10 to 25 form an integral part of these financial statements.

Notes

(forming part of the financial statements)

1 Accounting policies

Parsons Peebles Generation Limited (the “Company”) is a Company incorporated and domiciled in the UK.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (“FRS 101”).

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU (“Adopted IFRSs”), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The Company’s ultimate parent undertaking, Parsons Peebles Group Limited, includes the Company in its consolidated financial statements. The consolidated financial statements of Parsons Peebles Group Limited are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from Ground Floor East, 120 Bothwell Street, Glasgow, G2 7JL.

In these financial statements, the company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital, tangible fixed assets and intangible assets;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs; and
- Disclosures in respect of the compensation of Key Management Personnel.

As the consolidated financial statements of Parsons Peebles Group Limited include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- Certain disclosures required by IFRS 3 Business Combinations in respect of business combinations undertaken by the Company in the current and prior periods including the comparative period reconciliation for goodwill;
- Certain disclosures required by IAS 36 Impairment of assets in respect of the impairment of goodwill and indefinite life intangible assets;
- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 21.

1.1 Measurement convention

The financial statements are prepared on the historical cost basis.

Notes (*continued*)

1 Accounting policies (*continued*)

1.2 Going Concern

The Directors are required to prepare statutory financial statements on a going concern basis unless the Directors either intend to cease trading or have no realistic alternative but to do so. In satisfaction of this responsibility the Directors have considered the Company's ability to continue in operation and to meet its liabilities as they fall due.

As described in the Strategic Report on page 1, the economic and trading environment was challenging for the Company in the year to 31 December 2018 and the Company reported a loss before tax of £2,419,000. The Company also reported a net liability position of £1,890,000.

The company is reliant on the support of its parent, Parsons Peebles Group Limited ("the Group") to not call the amounts due to group undertakings (£2,698,000). The Company may also need cash inflows from the Group to meet liabilities as and when they fall due. The Directors of the Company are the same as the Directors of the Group.

The Directors believe that the Group is a going concern and that it will be able to support the Company for at least 12 months from the date of signing the Company accounts. However, the Directors of the Group have identified a material uncertainty in relation to the Group's ability to continue as a going concern and as a result the Directors of the Company believe that there is a similar material uncertainty in relation to the Company's ability to continue as a going concern. The Group Directors' rationale for their conclusion is set out in the basis of preparation note in the Group accounts, and has been replicated below:

The Group's business activities, together with the factors likely to affect its future development and performance are set out in the Strategic report together with a description of how the Group manages its capital, its liquidity risk and its exposure to credit risk.

The Group has secured an extension to the term loan and rolling credit facility with Allied Irish Bank ("AIB") from 31 March 2020 to 30 September 2020 with a termination date of 31 March 2021 if all attached conditions are met. The key condition is that the Group work towards a plan to deleverage the bank's position by 30 September 2020. This timing aligns with the Clyde Blowers Capital Fund III LP strategy to sell the Group in the same year.

Further conditions are attached to the extension:

- On or before 30 September 2020 a legally binding written offer from a credible proposed purchaser in respect of the acquisition of all or part of the business/assets which would generate disposal proceeds sufficient to repay not less than 50% of the total commitments on or before 31 March 2021.
- AIB require a management incentive package to be put in place to retain key members of the senior management during this process.

Based on discussions conducted to date, the Directors have reasonable expectations the plan to deleverage AIB's position will proceed successfully in line with the timings above. However, discussions with a number of parties are still in the early stages and will not be completed for some time and there can be no certainty that any process will proceed.

Notes (*continued*)

1 Accounting policies (*continued*)

1.2 *Going Concern*

The Board has undertaken a recent and thorough review of the Group's forecasts and the associated risks. These forecasts extend to the end of 2021. The forecasts make key assumptions, based on the information available to the board including:

- Ability of the Group to secure increased order input
- Continued increases in gross margin performance through higher margin work and operational efficiencies being implemented
- Improved trading performance or cost reductions within underperforming service centre sites
- Ability of management to continue to effectively manage cashflow including customer receipts and supplier payments

The Group was restructured in the second half of the year under a new Executive management team. The restructure focused on streamlining and flattening the governance structure, ensuring closer board control, monitoring and reporting for each of the 10 individual branches. Each branch within the three business units was given more autonomy to deliver margin growth and report directly into the Executive team. At the same time, the controls in place for tendering and project costing were tightened, changing the strategic focus of each of the branches from revenue to margin growth, thereby eliminating the introduction of low margin projects into the business. The group achieved £1.5 million in annualised overhead savings as a result of the restructure. These cost savings, together with an additional investment of £4.8 million from Clyde Blowers Capital in October 2018 has given the Group the platform to improve trading and cash generation throughout 2019.

As a result of the restructure, the Group's trading and profitability improved in the year to 31 December 2019, and the outlook for the year to 31 December 2020 is positive.

The Directors have concluded that these circumstances represent a material uncertainty that casts significant doubt upon the Group's ability to continue as a going concern and that, therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. Nevertheless, after making enquiries and considering the uncertainty described above, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due up to the eventual sale of the business.

Notes (continued)

1 Accounting policies (continued)

1.3 Foreign currency

Transactions in foreign currencies are translated to the Company's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

1.4 Classification of financial instruments issued by the company

Following the adoption of IAS 32, financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and
- (b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

1.5 Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

Notes (continued)

1 Accounting policies (continued)

1.5 Non-derivative financial instruments (continued)

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

1.6 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives are as follows:

Plant and machinery, fixtures & fittings	5-10 years
Computer equipment	3 years
Motor vehicles	4-5 years

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

1.7 Intangible assets and goodwill

Goodwill

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units. It is not amortised but is tested annually for impairment. This is not in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 which requires that all goodwill be amortised. The directors consider that this would fail to give a true and fair view of the profit for the year and that the economic measure of performance in any period is properly made by reference only to any impairment that may have arisen. It is not practicable to quantify the effect on the financial statements of this departure.

1.8 Long term contracts

Certain contracts undertaken by the Company which extend beyond the balance sheet date and which are material to the overall results of the Company are accounted for as long term contracts notwithstanding that the duration of the contract may be less than one year.

Amounts recoverable on such contracts are included in debtors. These amounts represent cost plus attributable profit less total progress payments received and receivable. Where total progress payments and provisions for losses exceed the costs incurred plus attributable profit, the excess is shown in creditors falling due within one year. Profit is taken on such contracts only when their outcome can be foreseen with reasonable certainty. In determining the amount of profit taken at the period end the main facts considered are the experience, if any, of similar contracts and the estimated percentage completion. Anticipated losses are provided in full.

1.9 Inventories

Stocks are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items. Cost includes all direct expenditure and an appropriate proportion of fixed and variable overheads.

Notes (continued)

1 Accounting policies (continued)

1.10 Impairment excluding inventories, and deferred tax assets

Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units, or ("CGU"). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is reversed if and only if the reasons for the impairment have ceased to apply. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Notes (continued)

1 Accounting policies (continued)

1.11 Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement in the periods during which services are rendered by employees.

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

1.12 Revenue

Revenue represents the cost plus attributable profit in respect of the stage of completion of work performed in the period on new build and repair contracts and the amounts invoiced in the period in relation to the supply of spares to third party customers.

1.13 Expenses

Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

Financing income and expenses

Financing expenses comprise interest payable and net foreign exchange losses that are recognised in the income statement (see foreign currency accounting policy). Financing income comprises interest receivable on funds invested and net foreign exchange gains.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Foreign currency gains and losses are reported on a net basis.

1.14 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Notes (continued)

1 Accounting policies (continued)

1.14 Taxation

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

2 Revenue

	2018 £000	2017 £000
Original Equipment contracts	2,472	1,237
Service contracts, including supply of spares	3,183	3,930
Total Turnover	<u>5,655</u>	<u>5,167</u>

3 Expenses and auditor's remuneration

	2018 £000	2017 £000
<i>Loss before tax is stated after charging:</i>		
Depreciation and other amounts written off tangible fixed assets	68	112
Hire of other assets - operating leases	232	44
<i>Auditors remuneration:</i>		
	2018 £000	2017 £000
Audit of these financial statements	<u>22</u>	<u>13</u>

Notes (continued)

4 Staff numbers and costs

The average number of persons employed by the Company (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	2018	2017
Production	41	43
Sales and administration	14	21
	<u>55</u>	<u>64</u>

The aggregate payroll costs of these persons were as follows:

	2018	2017
	£000	£000
Wages and salaries	2,320	3,049
Social security costs	274	309
Other pension costs	96	125
	<u>2,690</u>	<u>3,483</u>

5 Directors' remuneration

Remuneration of the directors was borne by another group Company in the current and prior year.

6 Finance income and expense

Recognised in the income statement

	2018	2017
	£000	£000
Interest payable on Group Loans	(65)	-
Foreign exchange gains/(losses)	(10)	50
	<u>(75)</u>	<u>50</u>

Notes (continued)

7 Taxation

Recognised in the income statement

	2018 £000	2017 £000
Current tax credit:		
Adjustment in respect of prior periods	(10)	-
Total tax credit	(10)	-
Deferred tax credit:		
Origination and reversal of temporary differences	(21)	(9)
Adjustment in respect of prior periods	(7)	5
Effect of tax rate change on opening balance	-	-
Deferred tax credit	(28)	(4)
Total tax credit in income statement	(38)	(4)

Reconciliation of effective tax rate

	2018 £000	2017 £000
Loss for the year	(2,381)	(1,184)
Total tax credit	(38)	(4)
(Loss) excluding taxation	(2,419)	(1,188)
Tax using the UK corporation tax rate of 19.00% (2017: 19.25%)	(460)	(229)
Non-deductible expenses	9	3
Adjustment in respect of prior periods	(17)	5
Tax losses not utilised	436	215
Other	(6)	2
Total tax credit	(38)	(4)

A reduction in the corporation tax rate from 20% to 19% (effective from 1 April 2017) and to 18% (effective from 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's tax charge accordingly. The deferred tax asset at 31 December 2018 has been calculated based on these rates.

Notes (continued)

8 Property, plant and equipment

	Plant and machinery	Computer Equipment	Motor Vehicles	Fixtures & Fittings	Total
<i>Cost</i>	£000	£000	£000	£000	£000
Balance at 1 January 2018	736	464	17	254	1,471
Additions	-	3	-	-	3
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December 2018	736	467	17	254	1,474
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<i>Depreciation</i>					
Balance at 1 January 2018	597	449	17	200	1,263
Charge for the Year	24	11	-	33	68
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December 2018	621	460	17	233	1,331
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<i>Net book value</i>					
Balance at 31 December 2018	115	7	-	21	143
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2017	139	15	-	54	208
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

9 Intangible assets

	Goodwill £000
<i>Cost</i>	
Balance at 1 January 2018 and 31 December 2018	10
	<hr/>
<i>Amortisation and impairment</i>	
Balance at 1 January 2018 and 31 December 2018	10
	<hr/>
<i>Net book value</i>	
At 31 December 2018	-
	<hr/>
At 31 December 2017	-
	<hr/>

Notes (continued)

10 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets 2018 £000	Liabilities 2018 £000	Assets 2017 £000	Liabilities 2017 £000
Property, plant and equipment	(12)	-	(3)	-
Tax losses carried forward	(87)	-	(77)	-
Employee benefits	(4)	-	(3)	-
Other timing differences	(16)	-	(8)	-
	<hr/>	<hr/>	<hr/>	<hr/>
Tax (assets) / liabilities	(119)	-	(91)	-
	<hr/>	<hr/>	<hr/>	<hr/>
Net tax assets		(119)		(91)
		<hr/>		<hr/>

Movement in deferred tax during the year

	31 December 2017 £000	Recognised in Income £000	31 December 2018 £000
Property, plant and equipment	(3)	(9)	(12)
Tax losses carried forward	(77)	(10)	(87)
Employee benefits	(3)	(1)	(4)
Other timing differences	(8)	(8)	(16)
	<hr/>	<hr/>	<hr/>
	(91)	(28)	(119)
	<hr/>	<hr/>	<hr/>

11 Inventories

	2018 £000	2017 £000
Raw materials and consumables	61	56
Work in progress	671	1,843
	<hr/>	<hr/>
	732	1,899
	<hr/>	<hr/>

Raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales in the year amounted to £19,000 (2017: £27,000).

Notes (continued)

12 Trade and other receivables

	2018 £000	2017 £000
Trade receivables	1,488	1,080
Amounts recoverable on contracts debtors	1,610	1,271
Amounts owed by group undertakings	242	101
Prepayments and accrued income	114	70
Deferred tax asset (note 10)	119	91
Other debtors	938	111
	<hr/>	<hr/>
	4,511	2,724
	<hr/>	<hr/>

Debtors include £nil (2017: £nil) due after more than one year.

Trade debtors include retentions of £nil (2017: £nil) relating to construction contracts in progress.

13 Trade and other payables

	2018 £000	2017 £000
Trade payables	946	698
Non trade payables and accrued expenses	3,242	1,828
Payment on account	838	806
Amounts due to group undertakings	2,698	2,158
	<hr/>	<hr/>
	7,724	5,490
	<hr/>	<hr/>

Progress billings and advances received from customers under open new build contracts or for which related work has not started, and billings in excess of costs incurred and recognised profits are presented as deferred income and amounted to £838,000 (2017: £806,000) at 31 December 2018.

Notes (continued)

14 Employee benefits

Pension plans

Defined contribution plans

The Company operates a defined contribution pension plan.

The total expense relating to these plan in the current year was £95,775 (2017: £127,709).

15 Capital and reserves

Share capital

2018
£000

Issued

Balance at 1 January 2018	500
One share Issued 23 April 2018	-

Balance as at 31 December 2018	500
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Allotted, called up and fully paid

Ordinary shares of £1 each	500
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The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Dividends

No dividends were recognised during the period (2017: £nil).

Share premium

2018
£000

Balance at 1 January 2018	-
Capitalisation of intra-group liability	1,000
Balance as at 31 December 2018	1,000

On the 23rd April 2018 one ordinary share of £1 was issued to Parsons Peebles Group Limited together with a share premium of £999,999, in exchange for the capitalisation of £1,000,000 of the intra-group debt due by Parsons Peebles Generation Limited to Parsons Peebles Group Limited.

Notes (continued)

16 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2018 £000	2017 £000
Within one year	227	223
Between two and five years	736	182
	<u>963</u>	<u>405</u>

During the year £232,000 was recognised as an expense in the income statement in respect of operating leases (2017: £117,000).

17 Commitments

Capital commitments

The Company had no commitments to purchase property, plant and equipment outstanding at 31 December 2018 (2017: £nil).

18 Contingent liabilities

The Company, along with Parsons Peebles Group Limited and its subsidiaries has a banking facility with Allied Irish Banks (AIB), which gives access to a revolving credit facility and other ancillary facilities. The Company granted a bond and floating charge and a shares pledge in favour of AIB in respect of these facilities.

19 Related party disclosures

In accordance with FRS101.8, the company has taken the exemption available to not disclose transactions with wholly owned subsidiaries within the Parsons Peebles Group.

20 Ultimate parent undertaking and controlling party

The Company is a subsidiary undertaking of Parsons Peebles Group Limited which is the ultimate parent Company incorporated in United Kingdom. The ultimate controlling party is MDP Fund LP.

The largest group in which the results of the Company are consolidated is that headed by Parsons Peebles Group Limited. The consolidated financial statements of these groups are available to the public and may be obtained from Ground Floor East, 120 Bothwell Street, Glasgow, G2 7JL.

Notes (continued)

21 Accounting estimates and judgements

The preparation of the consolidated financial statements requires the directors to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. Areas requiring the directors to make judgements, estimates and assumptions are highlighted in these accounting policies and throughout the notes to the consolidated financial statements. Key estimates and judgement areas are as follows:

Amounts recoverable on contracts

The recoverability of amounts recoverable on contracts are kept under constant review (refer to note 12).

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash generating unit and to select a suitable discount rate in order to calculate the present value. The Goodwill net book value at the end of the year was £nil (2017: £nil)

22 Subsequent events

On the 7th June 2019 one ordinary share of £1 was issued to Parsons Peebles Group Limited together with a share premium of £1,885,623, in exchange for the capitalisation of £1,885,624 of the intra-group debt due by Parsons Peebles Generation Limited to Parsons Peebles Group Limited.

Had the conversion of the debt to equity taken place at the balance sheet date the net liability position on the balance sheet of £1,890,000 would have instead have been a net liability position of £4,000.