

FLOATEL UK CONTRACTOR LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED

31 DECEMBER 2018



FLOATTEL UK CONTRACTOR LIMITED

DIRECTORS AND ADVISERS

Directors:	B T Hjelmstierna G Wiklund
Company Secretary:	Burness Paul LLP
Registered Office:	Citypoint House 11 Chapel Street Aberdeen AB10 1SQ
Registered Number:	SC500821
Independent Auditors:	PricewaterhouseCoopers LLP The Capitol 431 Union Street Aberdeen AB11 6DA

FLOATTEL UK CONTRACTOR LIMITED

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FLOATTEL UK CONTRACTOR LIMITED

STRATEGIC REPORT

The directors present the Strategic Report for the year ended 31 December 2018, for Floatel UK Contractor Limited ("the Company").

Principal activities

The principal activities of the Company continued to be that of the provision of semi-submersible accommodation and construction support vessels to the oil and gas industry. In mid-June 2019, the client contract with Maersk ended, and the Vessel was returned to its owner. The board is actively looking for new opportunities.

Business review

Both the level of business and year end financial position were satisfactory and in line with expectations. Management will continue to pursue a strategy to explore opportunities and secure new charter contracts in the UK.

The results for the year ended 31 December 2018 are shown in the statement of profit or loss and other comprehensive income on page 11. The profit before taxation was \$6,435,354 (2017: \$5,894,089).

In June 2019, the contract with the customer ended and the vessel Floatel Victory left UK waters. There is no replacement contract in the UK at the time of approval of these financial statements. The directors, having made due and careful enquiry and preparing forecasts, are of the opinion that the company has adequate working capital to execute its operations over the next 12 months.

Key performance indicators (KPIs)

The following KPIs are relevant to an understanding of the performance of the business and are used by management in reviewing the results and operations of the business:

(i) Profit before tax (PBT)

This is the key measure for management as it allows them to assess how effectively the Company is being managed. PBT as a percentage of revenue was 9.6% during the year (2017: 7.4%).

(ii) Cashflow

The cash position of the Company is constantly reviewed to ensure there are adequate cash balances in place to service customer requirements. The Company had a net cash inflow from operating activities of \$9,151,704 during the year (2017: \$13,284,998).

(iii) Rig utilisation

Management monitor rig utilisation which is the number of days rigs are on hire as a percentage of their total availability for hire, during any financial year. Rig utilisation was 100% over both financial years 2018 and 2017.

Principal risks and uncertainties

General

Floatel International Management System (FIMS) is an integrated management system based on three corner stones – Compliance, Control and Risk Management – in order to ensure the quality of performance, both business and operational. Policies and procedures are based on industry standards and aligned with the rules, regulations, codes and standards the Company is certified to. The system is managed at group level.

FLOATEL UK CONTRACTOR LIMITED

STRATEGIC REPORT (CONTINUED)

Environmental issues

The Environmental Management System (EMS), integrated in FIMS, which is also managed at group level, contains procedures for identifying and controlling environmental impacts and risks, where the potential of oil spill is the main risk. The EMS also includes emergency response procedures and plans for responding to environmental accidents in order to minimise any impact these might have.

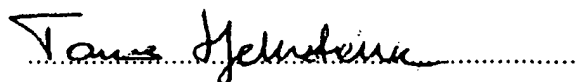
Operational risk

The Company's offshore operations involve a variety of risks, such as injury to personnel, damage to equipment, accidental discharges/emissions to the natural environment and business interruption. The Company has entered into a service agreement with Floatel International AB and Floatel UK Limited for receiving certain project management services including, inter alia, risk management. The operational risks are governed by the group's internal policies and procedures including a risk management plan with relevant procedures specific for its operational activities. The policies and procedures are based on international recognised standards, describing the main activities, organisation, responsibilities and functional requirements.

Additional risks

For additional risks such as credit risk, price risk, cash flow risk and liquidity risk please refer to the Directors' Report.

On behalf of the board:



B T Hjelmstierna
Director

October 8, 2019

Date

FLOATEL UK CONTRACTOR LIMITED

DIRECTORS' REPORT

The directors present the Directors' Report for the year ended 31 December 2018.

Dividends

No dividends were paid during the year and no final ordinary dividends have been recommended by the directors (2017: \$nil).

Future developments

The Company intends to continue operating in the area of the provision of accommodation and construction support vessels to the oil and gas industry, with a focus on maintaining the business and increasing profitability.

Directors

The following directors have held office since 1 January 2018 and up to the date of this report, unless otherwise stated:

B T Hjelmstierna

H J MacLeod

F Arnoldsson

G Wiklund

(Resigned 29 August 2019)

(Resigned 28 March 2019)

(Appointed 28 March 2019)

Financial risk management objectives and policies

The Company's activities expose it to a number of financial risks including: credit risk, liquidity risk and market risk. The Company does not use derivatives to manage financial risk or for speculative purposes. Further information on the Company's financial risk management is provided within note 17.

Going concern

The Company has net profit of \$3,241,222 for the year ended 31 December 2018 (2017: \$97,709) and net current assets \$5,481,309 at 31 December 2018 (2017: \$1,753,629). The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing these financial statements.

Events after the reporting date

On 3 June 2019 Prosafe SE and Floatel International Ltd have signed an agreement to merge their respective businesses. The aim is to create a more robust company with improved services and geographical presence, able to sustain a prolonged cyclical downturn and challenging markets for offshore accommodation. At the moment of approval of the financial statements Norwegian and UK competition authorities are reviewing the proposed merger.

In mid-June 2019, the client contract with Maersk ended, and the Vessel was returned to its owner. The board is actively looking for new opportunities.

Statement of directors' responsibilities

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 prepared 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 company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRS as adopted by the European Union have been followed for the company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

FLOATTEL UK CONTRACTOR LIMITED

DIRECTORS' REPORT (CONTINUED)

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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.

Directors' confirmations

So far as the directors are aware, there is no relevant audit information of which the Company's auditors are unaware. Additionally, the directors have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the Company's auditors are aware of that information.

Independent auditors

PricewaterhouseCoopers LLP have expressed their willingness to continue in office as auditors and appropriate arrangements are being made for them to be deemed reappointed.

On behalf of the board:



B T Hjelmstierna
Director

October 8, 2019

Date

Independent auditors' report to the members of Floatel UK Contractor Limited

Report on the audit of the financial statements

Opinion

In our opinion, Floatel UK Contractor Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the statement of financial position as at 31 December 2018; the statement of profit or loss and other comprehensive income, the statement of cash flows, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

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

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities set out on page 6, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also 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.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.



Kevin Reynard (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Aberdeen
8 October 2019

FLOATTEL UK CONTRACTOR LIMITED**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018**

	Note	2018 \$	2017 \$
Continuing operations			
Revenue	5	66,874,769	81,124,917
Cost of sales	7	(58,446,545)	(71,664,716)
Gross profit		<u>8,428,224</u>	<u>9,460,201</u>
Administrative expenses	7	(1,987,756)	(3,474,474)
Profit before interest and taxation	6	6,440,468	5,985,727
Finance income	8	543	22
Finance costs	8	(5,657)	(1,660)
Profit before taxation		<u>6,435,354</u>	<u>5,984,089</u>
Taxation	10	(3,194,132)	(5,886,380)
Profit for the year		<u>3,241,222</u>	<u>97,709</u>
Other comprehensive income			
Items that will not be reclassified to profit or loss		-	-
Items that are or may be reclassified subsequently to profit or loss		-	-
Total comprehensive income for the year		<u><u>3,241,222</u></u>	<u><u>97,709</u></u>

The profit and total comprehensive income for the year is attributable in full to the owners of the Company.

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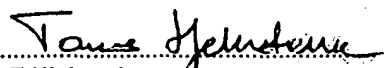
STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

	Note	2018 \$	2017 \$
Non-Current assets			
Deferred tax asset		24,686	
Current assets			
Trade and other receivables	11	21,405,297	14,514,640
		<u>21,405,297</u>	<u>14,514,640</u>
Current liabilities			
Trade and other payables	12	(13,824,700)	(9,156,754)
Current tax payable		<u>(2,099,288)</u>	<u>(3,604,257)</u>
		<u>(15,923,988)</u>	<u>(12,761,011)</u>
Net current assets		<u>5,481,309</u>	<u>1,753,629</u>
Net assets		<u>5,505,995</u>	<u>1,753,629</u>
Equity			
Share capital	13	1	1
Retained earnings	13	<u>5,505,994</u>	<u>1,753,628</u>
Total equity		<u>5,505,995</u>	<u>1,753,629</u>

The notes on pages 15 to 34 are an integral part of these financial statements.

The financial statements on pages 11 to 34 were approved and authorised for issue by the board on

Signed on behalf of the board:


B T Hjelmstierna
Director

Company Registration No. SC500821

FLOATTEL UK CONTRACTOR LIMITED**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018**

	Share capital \$	Retained earnings \$	Total equity \$
At 1 January 2017	1	1,655,919	1,655,920
Profit for the year and other comprehensive income	-	97,709	97,709
Total comprehensive income for the year	-	97,709	97,709
At 31 December 2017	1	1,753,628	1,753,629
Adjustment on initial application of IFRS 15	-	511,144	511,144
Adjusted balance at 1 January 2018	1	2,264,772	2,264,773
Profit for the year and other comprehensive income	-	3,241,222	3,241,222
Total comprehensive income for the year	-	3,241,222	3,241,222
At 31 December 2018	1	5,505,994	5,505,995

FLOATTEL UK CONTRACTOR LIMITED

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 \$	2017 \$
Cash flows from operating activities		
Profit for the year	3,241,222	97,709
Adjustments for:		
Net finance costs	5,114	1,638
Tax expense	3,194,132	5,886,380
Adjustment on initial application of IFRS 15	511,144	-
	<u>6,951,612</u>	<u>5,985,727</u>
<i>Changes in:</i>		
Trade and other receivables	4,746,053	9,699,537
Prepayments and accrued income	324,507	1,502,811
Trade and other payables	1,607,474	(505,705)
Deferred income	251,502	-
	<u>13,881,148</u>	<u>16,682,370</u>
Cash generated from operating activities		
Interest paid	(5,657)	(1,660)
Income taxes paid	(4,723,787)	(3,395,712)
	<u>9,151,704</u>	<u>13,284,998</u>
Net cash from operating activities		
Cash flows from investing activities		
Interest received	543	22
	<u>543</u>	<u>22</u>
Net cash generated from investing activities		
Cash flows from financing activities		
Amounts (paid to)/received from group undertakings	(9,152,247)	4,439,250
	<u>(9,152,247)</u>	<u>4,439,250</u>
Net cash (used in)/generated from financing activities		
Net movement in cash and cash equivalents	-	17,724,270
Cash and cash equivalents at 1 January	-	(17,724,270)
Cash and cash equivalents at 31 December	-	-

FLOATEL UK CONTRACTOR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

1. Reporting entity

Floatel UK Contractor Limited ("the Company") is a company incorporated and domiciled within the United Kingdom, Scotland, as a private company with liability limited by shares. The address of the Company's registered office is Citypoint House, 11 Chapel Street, Aberdeen, AB10 1SQ. Its principal activity continues to be that of the provision of offshore accommodation and construction support vessels to the oil and gas industry. Accommodation and construction support vessels are provided through the Company's sister companies within the Floatel International Limited group ("the Group").

2. Summary of significant accounting policies

2.1. Basis of preparation of the financial statements

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and IFRS Interpretations Committee ("IFRS IC") Interpretations as adopted by the European Union and with the Companies Act 2006 applicable to companies reporting under IFRS. They were authorised for issue by the Company's board of directors on the date set out on page 12 and the Statement of Financial Position was signed on the board's behalf by Mr B T Hjelmstierna.

The financial statements have been prepared on a historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

The financial statements are presented in accordance with IAS 1 *Presentation of Financial Statements*. The Company has elected to present the Statement of Profit or Loss and Other Comprehensive Income in a single statement. The accounting policies that follow have been consistently applied to all years presented.

2.2. Going concern

The Company has net profit of \$3,241,222 for the year ended 31 December 2018 (2017: \$97,709) and net current assets \$5,481,309 at 31 December 2018 (2017: \$1,753,629). The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing these financial statements.

2.3. Judgements and key sources of estimation uncertainty

In preparing these financial statements, management may consider judgements, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

i) Significant management judgement

Functional currency

The functional currency of the Company is the currency of the primary economic environment in which it operates. In determining the functional currency, the directors determined the currency in which primarily influences sales price and the currency in which the majority of the existing costs are denominated in.

ii) Significant estimation uncertainty

The directors have not noted any significant estimation uncertainties which have a significant effect on amounts recognised in the financial statements.

FLOATTEL UK CONTRACTOR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

2. Summary of significant accounting policies (continued)

2.4. Foreign currency translation

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in US Dollars (\$) which is the Company's functional and presentational currency, and all values are rounded to the nearest dollar except where otherwise indicated.

Transactions and balances

Transactions in foreign currencies are translated into the respective functional currency of the Company at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured at historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognised in profit or loss.

2.5. Financial instruments

i) Financial assets

Initial recognition and measurement

The Company determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

The Company's financial assets include cash and short-term deposits and trade and other receivables. The Company has no financial assets at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets or derivatives.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognised at fair value and subsequently measured at amortised cost using the effective interest (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance revenue in the income statement. Losses arising from impairment are recognised in the statement of profit or loss.

FLOATTEL UK CONTRACTOR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

2. Summary of significant accounting policies (continued)

2.5 Financial instruments (continued)

Loans and receivables (continued)

The company recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost, debt investments measured at FVOCI and contract assets (as defined in IFRS 15).

The company measures loss allowances at an amount equal to lifetime ECL, except bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition, which are measured as 12-month ECL. Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECL.

II) Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IFRS 9 are classified as financial liabilities at fair value through profit or loss, other financial liabilities measured at amortised cost using the EIR method, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs. The Company has no financial liabilities at fair value through profit or loss or derivatives.

Subsequent measurement

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

Other financial liabilities

Other financial liabilities are recognised when the Company becomes party to the related contracts and are measured initially at the fair value of consideration received less directly attributable transaction costs.

After initial recognition, other financial liabilities are subsequently measured at amortised cost using the effective interest method.

Gains and losses arising on the repurchase, settlement or otherwise cancellation of liabilities are recognised respectively in finance revenue and finance cost.

III) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the Company.

IV) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

FLOATTEL UK CONTRACTOR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

2. Summary of significant accounting policies (continued)

2.5 Financial instruments (continued)

v) Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Company measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Company uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Company determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- **Level 1:** Quoted (unadjusted) prices in active markets for identical assets or liabilities;
- **Level 2:** Other techniques for which all inputs which has a significant effect on the recorded fair value are observable, either directly or indirectly.
- **Level 3:** Techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

2.6. Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at banks and in hand and short-term deposits with an original maturity of three months or less. Bank overdrafts are shown within borrowings in current liabilities. Any excess cash is pooled with the Group and any funding requirements are met through pooled cash funds within the Group.

2.7. Impairment - Non-derivative financial assets

A financial asset not classified as fair value through profit or loss, including an interest in an equity-accounted investee, is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that loss event(s) had an impact on the estimated future cash flows of that asset that can be estimated reliably.

FLOATTEL UK CONTRACTOR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

2. Summary of significant accounting policies (continued)

2.7. Impairment - Non-derivative financial assets (continued)

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults or the disappearance of an active market for a security.

2.8. Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Company.

The Company recognizes revenue when control is transferred to the customer, that is when the performance obligations are fulfilled. Revenues regarding service contracts are normally recognized over time and accounted for over the duration of the contract with the use of either the input or output methods. These are different methods to measure the progress towards a complete satisfaction of a performance obligation. For revenue recognition over time the Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of services and other related income

a. Charter revenue

The Company provides offshore services to oil and gas industry in the form of time charter contracts with contract terms generally ranging from less than one year to five years. The charter income is recognized over time according to the terms of the agreement and in the period the work is performed and the performance obligations are fulfilled. Booking fee is recognized when performance obligations according to contract is fulfilled.

b. Mobilisation revenue

Mobilization income is usually allocated over time in the firm contract period for the charter revenue since the obligation to perform mobilization activities are highly interdependent on the charter activities. Thus, the mobilization revenue are normally not a distinct performance obligation in itself. Instead, the performance obligation related to mobilization activities are recognized together with the performance obligation to provide charter services.

c. Catering and rechargeable revenue

The Company provides services regarding catering and rechargeable revenue according to terms of the agreement and revenue is recognized over time when performance obligations are met.

d. Interest income

Interest income is recognized on a time-proportion basis using the effective interest method. When a receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument and continues unwinding the discount as interest income. Interest income on impaired loans is recognized using the original effective interest rate.

e. Dividend income

Dividend income is recognized when the right to receive payment is established.

FLOATTEL UK CONTRACTOR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

2. Summary of significant accounting policies (continued)

2.8 Revenue recognition (continued)

(b) Cost to fulfil the contract

The Company has assessed that the costs to perform mobilization activities are costs that has incurred in fulfilling a contract with the customer. These costs relates directly to a contract, generate resources used in satisfying the contract and are expected to be recovered. The costs are therefore capitalized as costs to fulfil a contract and amortized on a systematic basis over the contract period.

2.9. Finance income and finance costs

Finance income and finance costs comprise interest income, interest expense, dividend income, net gain or loss on financial assets at fair value through profit or loss (FVTPL), foreign currency gain or loss on financial assets and liabilities and impairment losses recognised on financial assets (other than trade receivables).

Interest income or expense is recognised using the effective interest method. Dividend income is recognised in profit or loss on the date on which the Company's right to receive payment is established. Interest expense directly attributable to the acquisition, construction or production of a qualifying asset is capitalised as part of that asset cost.

2.10. Leases

Assets held by the Company under leases which transfer to the Company substantially all of the risks and rewards of ownership are classified as finance leases. On initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognized in the Company's statement of financial position.

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Future minimum lease payments under non-cancellable operating lease are disclosed in note 15.

FLOATTEL UK CONTRACTOR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

2. Summary of significant accounting policies (continued)

2.11. Income tax

Income tax expense comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

i) Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the period and any adjustment to the tax payable or receivable in respect of previous periods. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends. Current tax assets and liabilities are offset only if certain criteria are met.

ii) Deferred tax

Deferred income tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences on the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, temporary differences related to investments in subsidiaries and joint arrangements to the extent that the Company is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future, and taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then the future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for individual subsidiaries of the Company. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

FLOATEL UK CONTRACTOR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

3. New accounting principles for 2019 and later not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2019, and have not been applied in preparing the consolidated financial statement. None of these is expected to have a significant effect on the consolidated financial statements of the Company. The new standards include:

IFRS 16, Leases – effective from 1 January 2019

IFRS 16, Leases requires assets and liabilities arising from all leases, with some exceptions, to be recognized on the balance sheet. This model reflects that, at the start of a lease, the lessee obtains the right to use an asset for a period of time and has an obligation to pay for that right. The accounting for lessors will in all material aspects be unchanged.

The standard will primarily impact the accounting of the Company's operational leases. At present, the Company only has leases for office rent and items of lesser value, such as copying machines. Considering the few and the size of leases in the Company where Floatel is the lessee, and the fact that the accounting for lessors will in all material respects be unchanged, will in all material aspects be unchanged, the preliminary assessment is that the standard will have no material impact on the Company. No early adoption done.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

4. New Accounting Policies Sales Forecast

IASB has issued several amendments to financial standards effective as from 1 January 2018. The impact of adoption of these standards and the key changes to the accounting policies are disclosed below.

IFRS 15 Revenue from contracts with customers – effective from 1 January 2018

The new accounting standard IFRS 15 Revenue from contracts with customers deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018.

The Company's income consists of charter revenue, with related booking fee, mobilisation income, and income from catering and other rechargeable cost. All revenue is recognized over time, based on fulfilment of the performance obligations of the contract with the customer.

The Company adopted the standard from 1 January 2018. Management has conducted an analysis of all revenue streams and assessed the standard as having a material impact on the allocation of mobilisation revenue and cost. The revenue regarding mobilisation and demobilisation are allocated over the firm contract period. Mobilisation costs incurred as part of a contract, as well as all cost in the demobilisation period of a contract are capitalised and expensed over the period when charter services are provided.

In accordance with the transition provisions in IFRS 15, the Company opted to use modified approach and recognised the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of retained earnings as at 1 January 2018 (further details are provided in the Statement of changes in Equity).

FLOATTEL UK CONTRACTOR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

4. New Accounting Policies Sales Forecast (continued)

IFRS 9 Financial Instruments – effective from 1 January 2018

The Company has applied IFRS 9 from 1 January 2018. In accordance with the transition provisions in the standard, the Group has elected not to restate comparatives on initial application of IFRS 9.

An assessment has been performed to identify the impact of adopting the new standard on the financial instruments as of the date of initial application.

Impairment

The impairment model under IFRS 9 reflects expected credit losses, as opposed to only incurred credit losses, and therefore it is not necessary for a credit event to have occurred before credit losses are recognised. Instead, the Company accounts for expected credit losses, and these amounts are updated at each reporting date. The Company has applied the simplified approach to recognise expected credit losses for its trade receivables. The calculation of the loss allowance as of 31 December 2018 and 31 December 2017 was immaterial.

5. Revenue

(i) Disaggregation of revenue

All revenue arises in the United Kingdom and Europe and arises from rendering of services. In the following table, revenue is disaggregated by major service lines.

Major service lines	2018 \$	2017 \$
Vessel management	66,874,769	81,124,917
Total	<u>66,874,769</u>	<u>81,124,917</u>

(ii) Contract Balances

The following table provides information about opening and closing receivables, contract assets and contract liabilities from contracts with customers (Note 11).

	2018 \$	2017 \$
Trade receivables	1,085,329	6,549,587
Amounts due from group undertakings	12,907,391	946,174
Capitalised mobilisation cost	718,204	-
Accrued income and prepayments	6,694,373	7,018,879
	<u>21,405,297</u>	<u>14,514,640</u>

(iii) Transaction price allocated to the remaining performance obligations

The company applies the practical expedient in IFRS 15.121 and does not disclose information about remaining performance obligations that have original expected durations of one year or less, to the extent these may arise.

FLOATEL UK CONTRACTOR LIMITED

6. Profit before interest and tax

Profit before interest and tax has been arrived at after (crediting) / charging:

	2018 \$	2017 \$
Net foreign currency exchange differences	(816,376)	351,170
Operating lease payments	33,900,829	47,474,485
Auditors' remuneration for the audit of the Company's financial statements	11,754	13,631

7. Expenses by nature

	2018 \$	2017 \$
Direct rig running costs	59,089,098	73,310,600
Freight costs	388,109	373,244
Communications and IT	702,597	594,398
Legal and professional	193,466	179,240
Management fees	516,644	186,675
Consultancy fees	255,664	88,254
Audit costs	11,754	13,631
Accountancy	48,565	35,357
Sundry costs and donations	44,781	6,621
Foreign exchange differences	(816,376)	351,170
Total cost of sales and administrative expenses	60,434,301	75,139,190

8. Net finance costs

	2018 \$	2017 \$
Other finance income	543	22
Finance income	543	22
Other finance costs	(5,657)	(1,660)
Finance costs	(5,657)	(1,660)
Net finance costs recognised in profit or loss	(5,114)	(1,638)

9. Staff costs

The Company does not have any employees other than directors.

The directors are remunerated through other subsidiary companies within the Floatel International Limited group and as such, no directors' remuneration is shown within the Company. The emoluments of the directors are recharged to the Company as part of a management charge. This management charge includes a recharge of administration costs borne by other subsidiary companies within the Floatel International Limited group on behalf of the Company and it is not possible to identify separately the amount of the directors' emoluments.

No pension contributions were prepaid or outstanding at the year end (2017: \$nil).

FLOATTEL UK CONTRACTOR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

10. Taxation

Tax recognised in profit or loss

	2018 \$	2017 \$
Current income tax		
UK corporation tax	3,338,716	5,827,138
Adjustments in respect of prior periods	-	59,242
	<u>3,338,716</u>	<u>5,886,380</u>
Deferred tax		
Origination and reversal of timing differences	(144,584)	-
	<u>(144,584)</u>	<u>-</u>
Total tax charge	<u>3,194,132</u>	<u>5,886,380</u>

No tax was either charged or credited to other comprehensive income.

Reconciliation of the total tax charge

The tax expense in the statement of profit or loss for the year is higher than (2017: higher than) the standard rate of corporation tax in the UK of 19%. The differences are reconciled below:

	2018 \$	2017 \$
Profit before taxation	6,435,354	5,984,089
Tax calculated at UK standard rate of corporation tax of 19% (2017: 19.25%):	1,222,717	1,151,937
Non-deductible expenses	1,971,415	4,675,201
Adjustments in respect of prior periods	-	59,242
Total tax charge	<u>3,194,132</u>	<u>5,886,380</u>

The Company's current tax liability as 31 December 2018 is \$2,099,288 (2017: \$3,604,257).

Factors that may affect future tax charge

Reductions to the UK corporation tax rates were substantively enacted as part of the Finance No. 2 Bill 2015 on 26 October 2015 with the main rate of corporation tax reducing to 18% from 1 April 2020. In the Budget 2016, it was announced that the UK corporation tax rate would actually reduce further, to 17% from 1 April 2020. This was substantively enacted in September 2016.

FLOATTEL UK CONTRACTOR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

11. Trade and other receivables

	2018 \$	2017 \$
Trade receivables	1,085,329	6,549,587
Amounts due from group undertakings	12,907,391	946,174
Capitalised mobilisation cost	718,204	-
Accrued income and prepayments	6,694,373	7,018,879
	<u>21,405,297</u>	<u>14,514,640</u>
Non-current	-	-
Current	<u>21,405,297</u>	<u>14,514,640</u>
	<u>21,405,297</u>	<u>14,514,640</u>

Amounts owed by group undertakings are unsecured, interest free and are repayable on demand.

12. Trade and other payables

	2018 \$	2017 \$
Current		
Trade payables	837,496	909,152
Amounts due to group undertakings	9,450,348	6,641,378
Deferred income	251,502	-
Accrued expenses	3,285,354	1,606,224
	<u>13,824,700</u>	<u>9,156,754</u>

Amounts due to group undertakings are unsecured, interest free and are repayable on demand.

13. Capital and reserves

	2018 \$	2017 \$
Share capital – authorised, issued and fully paid		
1 ordinary share of £1 each	<u>1</u>	<u>1</u>

Retained earnings

The retained earnings reserve reflects the aggregate of all profits and losses recognised through the income statement and other operating income less dividends paid throughout all periods up to the balance sheet date.

FLOATTEL UK CONTRACTOR LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)****14. Operating leases**

At the reporting end date, the Company had outstanding commitments for future minimum lease payments under non-cancellable operating lease, which fall due as follows:

	2018 \$	2017 \$
Less than one year	13,389,900	16,541,063
	<u>13,389,900</u>	<u>16,541,063</u>

During the year an amount of \$33,900,829 (2017: \$47,474,485) was recognised as an expense in profit or loss in respect of operating leases (see Note 6).

Lease commitments represent committed lease payments for The Floatel Victory.

15. Financial Instruments

The following table shows the carrying amounts of financial assets and financial liabilities, including their classification. For the financial assets and financial liabilities held by the Company, the directors consider the carrying amounts to be a reasonable approximation of their fair values.

31 December 2018

	Carrying value \$'000
Financial assets not measured at fair value	
Trade and other receivables	13,922
	<u>13,922</u>
Financial liabilities measured at fair value	
Trade and other payables	(10,288)
	<u>(10,288)</u>

FLOATTEL UK CONTRACTOR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

15. Financial instruments (continued)

31 December 2017

	Total \$'000
Financial assets not measured at fair value	
Trade and other receivables	7,496
	<u>7,496</u>
Financial liabilities measured at fair value	
Trade and other payables	(7,551)
	<u>(7,551)</u>

16. Financial risk management

The Company has exposure to the following risks arising from financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Company's exposure to each of the above risks and the Company's objectives policies and procedures for measuring and managing risk.

i) Risk management framework

The Company's board of directors has overall responsibility for the establishment and oversight of the risk management framework. The board of directors utilise senior management to develop and monitor the it's risk management policies and regular reports are made to the board on activity and progress.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The board of directors also oversee how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

ii) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers.

The carrying amount of financial assets represents the maximum credit exposure.

Trade and other receivables

FLOATTEL UK CONTRACTOR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

16. Financial risk management

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk associated with the industry and country in which the customers operate.

The counterparty risk is in general limited in respect of customers, since these are typically major oil companies and national oil companies with high credit ratings and strong balance sheets. As of 31 December 2018, there is no objective evidence that trade receivables are impaired and no impairment loss has been recognised in the income statement.

At 31 December, the ageing of trade and other receivables that were not impaired was as follows:

	2018 \$'000	2017 \$'000
Neither past due nor impaired	13,993	7,496
Past due 1-30 days	-	-
Past due 31-90 days	-	-
Past due 91-120 days	-	-
	<u>13,993</u>	<u>7,496</u>

Cash and cash equivalents

The Company held cash and cash equivalents of \$nil at 31 December 2018 (31 December 2017: \$nil), which represents its maximum credit exposure on these assets.

iii) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The following are the remaining contractual maturities at the end of the reporting period of financial liabilities. The amounts are gross and undiscounted, and include contractual interest payments and exclude the impact of netting agreements:

FLOATTEL UK CONTRACTOR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)**

16. Financial risk management (Continued)

31 December 2018		Contractual cash flows					
	Carrying amount \$'000	Total \$'000	2 months or less \$'000	2-12 months \$'000	1-2 years \$'000	2-5 years \$'000	More than 5 years \$'000
Non- derivative financial liabilities							
Trade payables	838	838	57	781	-	-	-
Other payables	9,450	9,450	9,450	-	-	-	-
Deferred income	252	252	-	252			
Accrued expenses	3,285	3,285	-	3,285	-	-	-
	<u>13,825</u>	<u>13,825</u>	<u>9,507</u>	<u>4,318</u>	<u>-</u>	<u>-</u>	<u>-</u>
31 December 2017		Contractual cash flows					
	Carrying amount \$'000	Total \$'000	2 months or less \$'000	2-12 months \$'000	1-2 years \$'000	2-5 years \$'000	More than 5 years \$'000
Non- derivative financial liabilities							
Trade payables	909	909	909	-	-	-	-
Other payables	6,641	6,641	6,641	-	-	-	-
Accrued expenses	1,606	1,606	-	1,606	-	-	-
	<u>9,156</u>	<u>9,156</u>	<u>7,550</u>	<u>1,606</u>	<u>-</u>	<u>-</u>	<u>-</u>

The gross outflows disclosed above represent the contractual undiscounted cash flows relating to derivative financial liabilities held for risk management purposes and which are not usually closed before the contractual maturity.

FLOATTEL UK CONTRACTOR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

16. Financial risk management (continued)

iv) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

The Company is exposed to currency risk to the extent that there is a mismatch between the currencies in which sales, purchases and borrowings are denominated and the respective functional currencies of the individual entities within the Company. The Company's exposure to currencies other than USD is mainly associated with operating and capital expenditures, tax liabilities and cash or cash equivalents, as revenues generally are received in USD. Depending on the country of operations and the nationality of the crew, the operating and tax expenditures are mainly denominated in USD, NOK, EUR, SEK and GBP.

The board of directors do not see currency risk as a significant part of the Company's market risk and does not use derivatives to hedge its currency risk. Instead, the Company seeks to naturally hedge foreign currency payments and receipts of the same denomination.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Company's policy is to ensure that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

The summary quantitative data about the Company's exposure to currency risk as reported to the management of the Company is as follows:

31 December 2018

	USD	NOK	EUR	SEK	GBP
\$'000					
Trade receivables	322	-	-	-	598
Trade payables	78	(1,162)	(20)	(860)	(517)
Net statement of financial position exposure	400	(1,162)	(20)	(860)	81

31 December 2017

	USD	NOK	EUR	SEK	GBP
\$'000					
Trade receivables	6,550	-	-	-	-
Trade payables	(9)	(63)	(5)	(77)	(755)
Net statement of financial position exposure	6,541	(63)	(5)	(77)	(755)

FLOATTEL UK CONTRACTOR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

16. Financial risk management (continued)

iv) Market risk (continued)

The following significant exchange rates have been applied:

	Year end spot rate 2018
NOK	0.1142
EUR	1.1454
SEK	0.1115
GBP	1.2650

Exchange rates are updated weekly.

Interest rate risk

The Company is not exposed to significant interest rate risk due to having no external borrowings and Inter-company balances are interest free.

17. Capital management

The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Management continuously monitors the cash position and capital structure in order to meet current funding requirements and to fund future growth opportunities. As the Company matures, its capital structure will be optimised to meet evolving conditions, including liquidity, investment opportunities and financing capabilities.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders.

18. Related parties

i) Key management personnel compensation

The group consider key management personnel to be the directors and certain senior management. There is no compensation paid to them through this Company.

ii) Other related party transactions

The company has entered into the following transactions with related parties:

	Transaction values for the year ended 31 December 2018 \$'000	Balance outstanding at 31 December 2018 \$'000
Fellow Group undertakings – transactions and balances		
Revenues	304	
Cost of sales	(43,917)	
Administrative expenses	(2,549)	
Other receivables - Group		12,907
Trade payables - Group		(3,616)
Net pooled cash - Group		(5,756)

FLOATEL UK CONTRACTOR LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)****18. Related parties (continued)**

	Transaction values for the year ended 31 December 2017 \$'000	Balance outstanding at 31 December 2017 \$'000
Fellow Group undertakings – transactions and balances		
Revenues	25	-
Cost of sales	(34,369)	-
Administrative expenses	(2,549)	-
Other receivables – Group	-	2
Trade payables – Group	-	(4,063)
Net pooled cash – Group	-	(1,634)

All outstanding balances with these related parties are priced on an arm's length basis and are to be settled in cash within 30 days of the reporting date. None of the balances is secured. No expense has been recognised in the current year for bad or doubtful debts in respect of amounts owed by related parties. No guarantees have been given or received other than as per note 20.

19. Parent and ultimate controlling party

The immediate parent and ultimate controlling party of the Company is Floatel International Limited, a company registered in Bermuda. Floatel International Limited is also the smallest and largest group of undertakings that prepare consolidated financial statements.

20. Contingent liabilities

As at 31 December 2018 the company's bank accounts within the group cash pool, and all of the company's assets and share capital have been pledged in relation to the Group's interest bearing debt, amounted to \$864.8 million (2017: \$1.048 million).

The lenders also have securities in the internal and external contracts, insurance compensations, floating charges in all group companies where that is permitted.

21. Events after the reporting date

On 3 June 2019 Prosafe SE and Floatel International Ltd have signed an agreement to merge their respective businesses. The aim is to create a more robust company with improved services and geographical presence, able to sustain a prolonged cyclical downturn and challenging markets for offshore accommodation. At the moment of approval of the financial statements Norwegian and UK competition authorities are reviewing the proposed merger.

In mid-June 2019, the client contract with Maersk ended, and the Vessel was returned to its owner. The board is actively looking for new opportunities.