

# **Petroleum Pipe Company Limited**

## **In Administration (the “Company”)**

Administrators’ Statement of Proposals  
Pursuant to paragraph 49 of schedule B1 to the Insolvency Act  
1986

19 October 2018

Ernst & Young LLP



**Building a better  
working world**

## Abbreviations

The following abbreviations are used in this report:

Act	the Insolvency Act 1986
BoS	Bank of Scotland
CDDA	Company Directors Disqualification Act 1986
date of appointment	29 August 2018
EY	Ernst & Young LLP
FYXX	Financial year ending 31 March 20XX
HMRC	HM Revenue and Customs
Joint Administrators	CP Dempster and GD Yuill
PPC Cayman	PPC Limited - in Official Liquidation
PPC UK	Petroleum Pipe Co Limited - in Administration
PPG	Petroleum Pipe Group Limited - in Liquidation
PSB	Pipeline Supplies Bahrain W.L.L Limited - in Liquidation
the Banking Group	together, the PPG Group, the Petrostem Group and the Maxtube Group
the Company	Petroleum Pipe Company Limited - in Administration
the Innospection Group	Innospection Group Limited and its subsidiary undertakings
the Major Creditors	Salzgitter Mannesmann International (USA) Inc. Salzgitter Mannesmann International GmbH Longulf Trading (UK) Limited Traxys North America LLC
the Maxtube Group	Maxtube Holdings Limited and its subsidiary undertakings
the MRS Group	Machine Rebuilding & Sales Limited and its subsidiary undertakings
the Petrostem Group	Petrostem Group Limited (In Liquidation) and its subsidiary undertakings
the Pioneer Group	Pioneer Group Ventures Limited and its subsidiary undertakings
the PPG Group	The Petroleum Pipe Group of companies, a structure chart for which is provided at Appendix B
the Rules	the Insolvency (England and Wales) Rules 2016
YTD19	Three month period to 30 June 2018

## Contents

1. Introduction, background and circumstances giving rise to the appointment .....	2
2. Purpose, conduct and end of the Administration .....	10
3. Statement of Affairs .....	15
4. Prescribed part .....	17
5. Administrators' receipts and payments .....	18
6. Administrators' remuneration, expenses, disbursements and payments to other professionals .....	19
7. Other Matters .....	21
Appendix A Statutory information .....	22
Appendix B Group Structure.....	24
Appendix C Administrators' receipts and payments account for the period from 29 August 2018 to 5 October 2018 .....	25
Appendix D Statement of administrators' charging policy for remuneration and disbursements pursuant to Statement of Insolvency Practice No.9.....	26
Appendix E Statement of Affairs .....	28

# 1. Introduction, background and circumstances giving rise to the appointment

## 1.1 Introduction

On 29 August 2018 the Company entered Administration and CP Dempster and GD Yuill were appointed to act as Joint Administrators. The appointment was made by the Company's Directors under the provisions of paragraph 22 of Schedule B1 to the Insolvency Act 1986. This document, including its appendices, constitutes the Joint Administrators' statement of proposals to creditors pursuant to paragraph 49 of Schedule B1 to the Insolvency Act 1986 and Rule 3.35 of the Insolvency (England and Wales) Rules 2016.

The Company is part of the Petroleum Pipe Group of Companies ('the PPG Group'). On 28 August 2018, three other companies within the PPG Group also entered insolvency. Specifically:

- ▶ On 28 August 2018, the Royal Court of Jersey ordered that, pursuant to Article 155 of the Companies (Jersey) Law 1991, Petroleum Pipe Group Limited ('PPG') and Pipeline Supplies Bahrain W.L.L Limited ('PSB') be placed into Just and Equitable Winding Up and that CP Dempster, SA Gardner and GD Yuill be appointed Joint Liquidators for the purposes of such winding up; and
- ▶ On 28 August 2018, PPG, as sole shareholder of PPC Limited ('PPC Cayman'), a PPG Group company registered in the Cayman Islands, resolved to appoint Voluntary Liquidators to PPC Cayman and KW Hutchison, CP Dempster and GD Yuill were appointed as Joint Voluntary Liquidators. A petition to convert this voluntary liquidation to an Official Liquidation was submitted to the Grand Court of the Cayman Islands on 2 October 2018, and granted by it on 5 October 2018.

Certain statutory information relating to the Company and the appointment of the Joint Administrators is provided at Appendix A.

CP Dempster and GD Yuill are UK licenced insolvency practitioners and, consequently, are bound by the Insolvency Code of Ethics when carrying out all professional work relating to the administration, liquidations, and voluntary liquidations.

## 1.2 Background

The PPG Group was formed in 1976 and its principal activity is a stockist and distributor of casing and tubing to the international oil and gas and geothermal industries. It acquires casing and tubing from steel mills (primarily in China) which it then supplies to oil and gas companies (typically exploration and production businesses).

The PPG Group trades worldwide, but predominantly in the Middle East.

The PPG Group's key customer is Occidental based in Oman to whom it supplies pipe under a contractual arrangement which expires on 31 December 2019. This customer accounts for c. 55% of the annual revenue of the PPG Group. Trading with Occidental is mainly conducted by PPC Cayman.

The PPG Group has a network of stock yards and offices across the globe. Each of these yards and offices is leased from or storage costs paid to either the Connected Groups or third parties.

The PPG Group's headcount on the date of appointment totalled 34 of which 9 are employed by the Company.

PPG is the main holding company of the PPG Group, and the Company is one of nine subsidiaries of it. A structure chart for the PPG Group is provided at Appendix B.

The Company is one of the main trading entities within the PPG Group, and predominantly traded with customers located in Europe. Its annual revenues in FY18 were \$14.5m. Consistent with the Company's trading activities, the main assets of the Company are trade debtor balances and production tubing / casing stocks.

The Company also leased the premises of the PPG Group in Aberdeen and London.

## 1.3 Financial information

We have summarised below the recent financial results of the Company:

### Historical trading performance summary

\$m	FY14	FY15	FY16	FY17	FY18
<b>Revenue</b>	<b>45.7</b>	<b>27.9</b>	<b>10.9</b>	<b>9.1</b>	<b>14.5</b>
Cost of Sales	(41.2)	(24.9)	(9.3)	(8.9)	(15.1)
<b>Gross profit</b>	<b>4.5</b>	<b>3.0</b>	<b>1.5</b>	<b>0.2</b>	<b>(0.6)</b>
<i>Gross profit margin</i>	9.9%	10.6%	14.0%	2.2%	-
Overheads	(4.9)	(3.5)	(2.2)	(1.5)	(1.9)
<b>EBITDA</b>	<b>(0.3)</b>	<b>(0.6)</b>	<b>(0.6)</b>	<b>(1.3)</b>	<b>(2.6)</b>
Depreciation	-	-	-	-	-
Interest	(0.1)	-	-	-	-
Taxation	-	-	-	-	-
<b>Net profit</b>	<b>(0.4)</b>	<b>(0.6)</b>	<b>(0.6)</b>	<b>(1.3)</b>	<b>(2.6)</b>

Source: Annual audited accounts provided by Anderson Anderson & Brown LLP to FY17 and Company Management Accounts for FY18

As stated above, the Company is part of the PPG Group. Due to the inter-relationships between each company in the PPG Group and their common management, throughout the remainder of this section of the report we refer to the activities of the whole PPG Group. This wider context of the PPG Group's activities is integral to understanding the circumstances giving rise to the insolvency of the Company and the subsequent appointment of the Joint Administrators.

### 1.3.1 Historical trading performance

The recent financial results of the PPG Group can be summarised as follows:

#### Historical trading performance summary

\$m	FY14	FY15	FY16	FY17	FY18
<b>Revenue</b>	<b>290.1</b>	<b>319.9</b>	<b>141.3</b>	<b>116.9</b>	<b>97.0</b>
Cost of Sales	(257.7)	(274.1)	(109.4)	(97.2)	(91.7)
<b>Gross profit</b>	<b>32.4</b>	<b>45.8</b>	<b>31.9</b>	<b>19.7</b>	<b>5.4</b>
<i>Gross profit margin</i>	<i>11.2%</i>	<i>14.3%</i>	<i>22.6%</i>	<i>16.9%</i>	<i>5.5%</i>
Overheads	(21.5)	(37.5)	(22.5)	(18.7)	(17.4)
<b>EBITDA</b>	<b>10.9</b>	<b>8.3</b>	<b>9.4</b>	<b>1.0</b>	<b>(12.0)</b>
Depreciation	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Interest	(3.2)	(2.4)	(1.5)	(0.8)	(0.3)
Taxation	0.2	-	-	-	-
<b>Net profit</b>	<b>7.8</b>	<b>5.8</b>	<b>7.7</b>	<b>0.1</b>	<b>(12.4)</b>

Source: Annual audited accounts provided by Anderson Anderson & Brown LLP to FY17 (FY17 draft) and PPG Group Management Accounts for FY18

After an 11 year period in which the PPG Group's revenues consistently exceeded \$200m and averaged \$278m, its revenues fell sharply from FY15 as a result of the downturn in the oil and gas sector from late 2014. Indeed, over the three year period from FY15 to FY18, the PPG Group's revenues fell by \$223m (70%) to \$97m, driven principally by the reduction in drilling activity over that period.

Whilst the PPG Group benefitted from a strong gross margin in FY16 as a result of the impact of its strategy to acquire surplus stock packages from competitors and end users at discounts, margins returned to more normal levels from FY17.

Management took measures to address the overhead cost base of the PPG Group. However, this was insufficient to maintain the overall profitability of the PPG Group. Consequently, the PPG Group recorded an EBITDA loss of \$12m in FY18. This EBITDA loss and gross margins in FY18 were impacted by lower margins on sales to Occidental and KOC and disposal of stock at lower prices to raise funding.

### 1.3.2 Forecast trading performance

#### Forecast trading performance summary

\$m	FY18	FY19		YTD19	YTD19
	Actual	Forecast		Forecast 3m	Actual 3m
<b>Revenue</b>	<b>97.0</b>	<b>135.7</b>		<b>27.8</b>	<b>32.4</b>
Cost of Sales	(91.7)	(119.2)		(24.8)	(32.1)
<b>Gross profit</b>	<b>5.4</b>	<b>16.5</b>		<b>3.0</b>	<b>0.3</b>
<i>Gross profit margin</i>	5.5%	12.2%		10.5%	0.8%
Overheads	(17.4)	(13.8)		(3.5)	(2.8)
<b>EBITDA</b>	<b>(12.0)</b>	<b>2.7</b>		<b>(0.6)</b>	<b>(2.5)</b>
Depreciation	(0.1)	-		-	-
Interest	(0.3)	(0.8)		(0.2)	(0.1)
Taxation	-	(0.1)		-	-
<b>Net profit</b>	<b>(12.4)</b>	<b>1.9</b>		<b>(0.8)</b>	<b>(2.6)</b>

Source: PPG Group Management accounts for FY18 and YTD19

Notwithstanding the FY18 financial performance, the PPG Group believed that improving market conditions in the oil and gas sector would allow it to return to profitability.

In February 2018, it, therefore, prepared trading projections for FY19 - FY21. These trading projections set out an EBITDA forecast of \$2.7m for FY19 driven by an anticipated increase in revenue of \$39m (40%). This forecast revenue growth exceeded Middle East market forecasts for production tubing and casing.

Actual results in the three months to 30 June 2018 show an EBITDA loss of \$2.5m, a shortfall of \$2m to forecast levels. These results were primarily impacted by losses on stock sales to raise funding to meet working capital requirements to allow completion of outstanding customer orders following the withdrawal of credit insurance to certain suppliers.

### 1.3.3 Historical and forecast cash flows

#### Historical and future cash flow summary

\$m	FY14	FY15	FY16	FY17	FY18	FY19
	Actual	Actual	Actual	Actual	Actual	Forecast
EBITDA	10.9	8.3	9.4	1.0	(12.0)	2.7
Working capital	(16.8)	0.4	40.2	(6.8)	3.6	10.1
<b>Operating cash flow</b>	<b>(5.9)</b>	<b>8.7</b>	<b>49.6</b>	<b>(5.8)</b>	<b>(8.4)</b>	<b>12.8</b>
Taxation	0.2	-	-	-	-	(0.1)
Capex	(0.3)	-	-	-	-	-
<i>Financing cash flows</i>						
BoS term loan	(6.8)	(2.0)	(7.5)	(5.0)	(1.3)	(2.5)
NBF Loan	-	-	-	-	-	(1.4)
Interest	(3.2)	(2.4)	(1.5)	(0.8)	(0.3)	(0.8)
JT Loans	4.0	10.7	(2.0)	(2.6)	7.0	
Major Creditors	-	-	-	40.7	8.9	-
<b>Intergroup</b>	<b>2.2</b>					
Maxtube Group		2.5	(1.1)	2.6	(3.6)	-
Petrostem Group		(0.6)	1.4	(52.2)	(38.8)	(4.0)
MRS		(2.0)	(3.8)	(0.3)	6.3	-
Innospection Group		1.0	-	(0.3)	(0.9)	-
Pioneer Group		-	(2.3)	(0.7)	(1.2)	-
Bright Morning Inv.		-	-	(3.6)	3.6	-
Dividends	(5.5)	-	-	-	-	-
<b>Total financing</b>	<b>(9.3)</b>	<b>7.3</b>	<b>(16.8)</b>	<b>(22.2)</b>	<b>(20.1)</b>	<b>(8.7)</b>
Movement in retained earnings	-	-	-	-	2.0	-
<b>Net cash inflow / (outflow)</b>	<b>(15.2)</b>	<b>16.0</b>	<b>32.9</b>	<b>(28.0)</b>	<b>(26.4)</b>	<b>4.0</b>
Opening cash	19.1	3.9	19.9	52.8	24.9	2.3
Closing cash	3.9	19.9	52.8	24.9	(1.5)	6.3

Source: Annual audited accounts provided by Anderson Anderson & Brown LLP to FY17 (FY17 draft), PPG Group Management Accounts for FY18; PPG Group financial projections for FY19

**Notes:**

1. An analysis of the intergroup inflow of \$2.2m in FY14 has not been provided.
2. The closing cash balance at 31 March 2018 and the opening balance for the FY19 forecast are different – as the FY19 forecast was prepared on the basis of a forecast cash balance at 31 March 2018.
3. Whilst we await confirmation of this, we anticipate that this movement in retained earnings in FY18 relates to the impact of adjustments to retained earnings brought forward not reflected in the PPG Group's management accounts at 31 March 2018.



PPG's cash position was typically strong throughout FY14 - FY16, supported by an average EBITDA of \$9.5m over that period. FY16 cash flows were also supported by a significant reduction in working capital levels, with falling turnover in that year driving a reduction in trade debtors of \$61.2m.

A material reduction in its cash flow position, however, is noticeable from FY17. Indeed, PPG Group recorded an operating cash outflow over FY17 and FY18 of \$14.2m. This operating cash outflow was driven by PPG Group's declining trading performance and an increase in stock attributable to the transfer to it of \$15m of Petrostem Group's rental assets. This stock transfer took place following consultation with BoS as consideration for the re-allocation of funds to Petrostem Group by PPG in order to reduce or eliminate Petrostem Group's overdrawn balance.

Both prior to and over this two year period, PPG Group benefitted from extended credit terms afforded to it by four creditors - Salzgitter Mannesmann International (USA) Inc, Salzgitter Mannesmann International GmbH, Longulf Trading (UK) Limited and Traxys North America LLC (together, "the Major Creditors"). An increase in credit totalling \$49.6m was provided over the period to FY18. Whilst this credit was typically (but not exclusively) contractually due by the PPG Group, the beneficiary of the majority of this credit (as set out below) was the Petrostem Group. Accordingly, whilst this credit was reflected on the balance sheet of the PPG Group, interest charges were typically recorded in the financial statements of Petrostem Group.

The cash flow summary presented above also highlights that the PPG Group provided funding aggregating \$95.6m to connected groups over the three year period from FY16 to FY18. Of this funding, \$89.6m was provided to Petrostem Group and was broadly applied by it to fund trading losses (\$22.3m), fund investment in its rental assets (\$23.2m) and meet the cash flow needs of the Pioneer and Innospection Groups (\$30.5m). Note that an element of the cash provided to the Connected Groups was funded by Julian Tyacke.

Note that the PPG Group's cash flow forecast for FY19:

- ▶ Reflected a net cash inflow from positive working capital movements of \$10.1m driven by a forecast reduction in average customer collection periods from 110 days to 70 days, and an assumption that advance payments to mill suppliers would not be required.
- ▶ Reflected the provision of funding to the Petrostem Group of \$4.0m; but
- ▶ Excluded forecast payments of \$12.6m to the Major Creditors of PPG Group, which were forecast separately on a consolidated basis for the Banking Group. Accordingly, the total debt repayment obligations of the PPG Group in FY19 were \$17.5m.

## **1.4 Circumstances giving rise to the appointment of the Joint Administrators**

### **1.4.1 Options considered by the PPG Group**

In light of the above noted financial performance of the PPG Group, the Banking Group consistently operated close to their agreed overdraft facility with BoS, who also agreed to the deferral of its scheduled term loan repayments at certain points in order to provide the Banking Group with flexibility whilst it sought to address its financial position.

The directors considered various options in order to try to address its deteriorating financial situation and engaged the services of FRP Advisory in May 2018 to assist therewith. These options are discussed below.

#### **1.4.1.1 Trade on**

In an attempt to address its deteriorating financial position, the PPG Group implemented a number of operational changes including redundancies and budget cuts which resulted in an improved forecast EBITDA of \$2.7m for FY19. Trading performance in the three months to 30 June 2018 was, however, materially behind expectations, with an EBITDA loss of \$2.5m recorded in that period.

As illustrated by the PPG Group's forecast cash flows, even a return to the forecast level of profitability in FY19 would have been insufficient to service the PPG Group's debt repayment obligations, which it estimated to be \$17.5m in FY19.

The PPG Group considered approaching its Major Creditors to agree a standstill in respect of their debt repayment obligations. It, however, assessed that such discussions would be unsuccessful. Further, in isolation, such a standstill would not have been a cure for the PPG Group's financial position - as the PPG Group required funding to meet its ongoing trading losses and working capital requirements.

In its FY19 cash flow forecast the PPG Group anticipated that it would not require to make payments in advance of delivery to its steel suppliers. In reality this was not achieved (for factors including the withdrawal of credit insurance to certain key suppliers) and the PPG Group required further funding to meet its working capital requirements. In particular, the PPG Group received a large order (c. \$22m) from its principal customer which required the acquisition of pipe with a value of c. \$14m from Chinese mills who require payment in advance of delivery (and / or a letter of credit to that value). The PPG Group was unable to fund this working capital requirement.

Accordingly, the directors of the PPG Group concluded that the Company and certain other subsidiaries were insolvent.

#### **1.4.1.2 Refinance**

The PPG Group considered a possible refinancing and, indeed, engaged a third party to assist therewith. An offer was received by the Banking Group from an independent third party in early August, which was rejected as it was incapable of being accepted (in light of the completion timescales proposed). Ultimately the extent of the debts of the PPG Group led to discussions with other parties being unsuccessful.

#### **1.4.1.3 Solvent sale of business**

The PPG Group fully considered whether a sale of the whole Group or its key trading subsidiaries as a going concern was viable, and this was explored by the third party appointed to seek a refinancing of the Banking Group. However, it was concluded that it was unreasonable to expect a third party to acquire the business as a whole in light of its current financial performance and the extent of its debts. A debt forgiveness as part of such a sale was also, for the reasons set out above, considered unachievable.

#### **1.4.1.4 Pre-packaged sale of business**

A pre-packaged sale of the trade and assets of the PPG Group to an independent third party immediately on insolvency was also considered. However, the PPG Group concluded that this was unachievable as its key customer contracts were all capable of being terminated on insolvency, and these key customers had in place alternate suppliers to whom the PPG Group assessed business would be preferred in the event of such an approach.

#### **1.4.1.5 Insolvency**

Based on the above, the PPG Group assessed that all options other than a full insolvency and managed wind-down of the PPG Group were unavoidable. Accordingly, the directors of the Company made arrangements to place the Company into Administration under the provisions of paragraph 22 of Schedule B1 to the Insolvency Act 1986.

### **1.5 Initial Introduction to the PPG Group**

EY were introduced to the PPG Group in November 2017 by the Bank of Scotland plc ('BoS'). Following that introduction, EY were engaged on 1 December 2017 by BoS to undertake an independent business review of the Banking Group. That original engagement was subject to an addendum dated 16 March 2018 and an extension of scope dated 12 June 2018.

Our scope of work included a review of the short term cash flow forecast of the Banking Group, an analysis of their balance sheets as at 31 October 2017, financial diligence in respect of their medium term trading forecasts, the provision of an illustrative outcome statement for BoS as at 31 October 2017, and an assessment of options available to BoS. Note that a detailed analysis of the historical trading and cash flow position of the Banking Group was not part of our scope of work.

In total, EY received a fee of £0.6m in respect of this engagement. In line with our Code of Professional Ethics, we have carefully considered whether this engagement constitutes a conflict of interest which precludes us from acting as Joint Administrators of the Company. We are satisfied that it does not.

## 2. Purpose, conduct and end of the Administration

### 2.1 Purpose of the administration

The purpose of an administration is to achieve one of three objectives:

- a. To rescue a company as a going concern
- b. To achieve a better result for a company's creditors as a whole than would be likely if the company were wound up (without first being in administration)
- c. To realise property in order to make a distribution to one or more secured or preferential creditors

Insolvency legislation provides that objective (a) should be pursued unless it is not reasonably practicable to do so or if objective (b) would achieve a better result for a company's creditors as a whole. Objective (c) may only be pursued if it is not reasonably practicable to achieve either objective (a) or (b) and can be pursued without unnecessarily harming the interests of the creditors of the company as a whole.

It was considered unlikely that objective (a) would be practicable to achieve as it would not be appropriate to continue to trade the business on in insolvency given the following factors:

- ▶ The Company holds few customer contracts and those that it does hold are terminable on insolvency;
- ▶ The nature of the business with long lead times between order and fulfilment and the related negative working capital cycle of the PPG Group risks further deterioration of creditors' positions; and
- ▶ The risk of cancelled orders or interruptions to supplies would likely have been detrimental to the position of the creditors of the PPG Group.

The Joint Administrators have therefore sought to pursue objective (b) to achieve a better result for the Company's creditors as a whole than would be likely if the company were wound up (without first being in administration). The key reasons for this are:

- ▶ The moratorium granted by an Administration afforded a period of protection to allow the Company to continue to wind down operations and provide the Joint Administrators time to seek a buyer for the assets of the Company;
- ▶ It affords the Joint Administrators the opportunity to complete certain outstanding customer orders held by the Company and to retain certain of the Company's staff to facilitate the completion of these orders and the realisation of value from the Company's book debts and stock.

As a result of the above, the Joint Administrators' consider that objective (b) will be achieved. If objection (b) is not achieved then objective (c), to realise property in order to make a distribution to one or more secured or preferential creditors, will be followed.

To assist with the insolvency process, the Joint Administrators have retained nine of the PPG Group's employees, of which 3 are employed by the Company. We will carefully assess the staffing requirements on an ongoing basis and will make further headcount reductions as appropriate. However, we currently anticipate retaining this team for 2-3 months to support the insolvency of the PPG Group.

## **2.2 Asset realisations for the Company**

As outlined at Section 1.2, the Company is one of the main trading entities within the PPG Group. Consequently, the main assets of the Company are trade debtor balances and production tubing / casing stocks.

### **2.2.1 Trade debtors**

As at 28 August 2018, trade debtor balances due to the Company aggregated \$2.3m. Of these balances, \$0.7m has been collected. Whilst the Joint Administrators will continue to pursue collection of these outstanding amounts, balances aggregating \$0.9m are likely to be difficult to collect.

### **2.2.2 Outstanding customer orders**

As at the date of appointment of the Joint Administrators, several customer orders were outstanding for completion. After careful consideration, the Joint Administrators determined that it was in the best interests of the creditors of the Company to seek to complete one of these customer orders. This order has now been delivered to its customer, and an invoice raised by the Company in respect of it. The Joint Administrators' anticipate receiving payment of that invoice in December 2018, and to generate a net benefit of c. \$0.5m for the creditors of the Company from completion of this order.

### **2.2.3 Production tubing / casing stocks**

As at 28 August 2018, the Company held production tubing / casing stocks with a net book value of \$0.5m. We are currently preparing these stock items for sale, and anticipate launching a sales process in respect thereof in towards the end of October 2018.

### **2.2.4 IT equipment**

As at the date of our appointment, the Company owned IT equipment and software. This equipment and software was not capitalised on the Company's balance sheet but had, instead, been expensed to its profit and loss account.

The Joint Administrators anticipate the imminent completion of a sale of this IT equipment and software to Maxtube ME Limited for a consideration of \$33,000. Maxtube ME Limited is a new company formed as a subsidiary of Maxtube Group and, accordingly, is connected to the Company (through the ultimate ownership structure of the PPG and Maxtube Groups).

The consideration from the sale of this IT equipment and software will be substantially in excess of an independent third party valuation of it. The terms of the sale and purchase agreement will also require Maxtube ME Limited to fully reimburse the Company for the costs associated with two of its employees from the completion date.

### **2.2.5 Intergroup balances**

As at the date of appointment, the Company was due \$11.3m by Petrostem Rentals Limited, an entity within the Petrostem Group. This entity is now subject to insolvency proceedings. As such, these receivables will, therefore, represent a claim by the Company in the insolvency of Petrostem Rentals Limited. The recovery from these balances will, therefore, depend on the outcome of that entity's insolvency process.

### **2.2.6 Prepayments to customer contracts**

As at the date of appointment, the Company had paid \$2.0m to suppliers as deposits on stock purchases. We are actively reviewing the options available to the Joint Administrators to realise value from these prepayments.

### **2.2.7 VAT receivable**

The Company is due a refund of \$184k from HMRC in relation to pre-appointment VAT. However, HMRC are owed a sum estimated at \$49k in relation to unpaid PAYE and NIC deductions. HMRC are entitled to set these amounts against each other such that a net realisation of \$135k is anticipated from this VAT debtor.

### **2.2.8 Foreign currency swap cancellation**

Shortly before our appointment, the Company instructed the cancellation of an "in the money" foreign currency swap transaction. The net funds arising therefrom of \$192k were received into a trust account held with Trinity Fiduciaries, and transferred to the Joint Administrators' bank account immediately on our appointment.

## **2.3 Asset realisations for the PPG Group**

The other insolvent entities within the PPG Group are not registered in England and Wales and are therefore subject to the insolvency proceedings in other jurisdictions. Accordingly, these entities are not within the remit of this report. Notwithstanding this, the Joint Administrators' recognise the inter-linked nature of the PPG Group and therefore detailed discussion of the insolvency proceedings and potential asset realisations for these entities is provided within the separate reports to the creditors of these companies which are available from the following website:

<https://www.ey.com/uk/en/services/transactions/restructuring/ey-ppg-petrostem-insolvencies>

## **2.4 Connected party transactions**

We are aware that the PPG Group entered into a number of transactions with connected parties in the five years prior to the insolvency of the Company. We are currently preparing a summary of these transactions before considering what further assessment is appropriate.

## **2.5 Approval of the Joint Administrators' Proposals**

The Joint Administrators are of the opinion that the Company has insufficient property to enable a distribution to be made to unsecured creditors other than by virtue of the prescribed part and consequently, in accordance with the provisions of paragraph 52(1) of

Schedule B1 to the Act, they do not intend to seek a decision of the creditors on the approval of the proposals.

The Joint Administrators will be obliged to seek a decision of the creditors if requested to do so by creditors of the Company whose debts amount to at least 10% of the total debts of the Company individually. The request must be delivered within 8 business days of the date on which these proposals are delivered to creditors (or such longer period as the court may allow) and must include the information required by Rule 15.18 of the Insolvency (England and Wales) Rules 2016.

In accordance with Rule 15.19 of the Rules, the Joint Administrators may require a deposit as security for payment of the expenses associated with convening a decision procedure or deemed consent procedure and will not be obliged to initiate the procedure until they have received the required sum.

## 2.6 Future conduct of the Administration

The Joint Administrators will continue to manage the affairs, business and property of the Company to achieve the purpose of the Administration. This will include, inter alia:

- ▶ Undertaking all such activities as are necessary to complete the outstanding customer order referred to at Section 2.2.2 above;
- ▶ Realising the remaining assets of the Company, most notably the books debts and stock (production tubing / casing);
- ▶ Dealing with corporation tax and VAT matters, which includes filing statutory returns;
- ▶ Dealing with unsecured creditor enquiries;
- ▶ Carrying out investigative procedures, including investigating the conduct of the Directors leading up to the Joint Administrators' appointment in accordance with the requirements of the CDDA;
- ▶ Distributing realisations to the secured and preferential creditors of the Company;
- ▶ Ensuring all statutory reporting and compliance obligations are met; and
- ▶ Finalising the Administration, including payment of all Administration liabilities.

## 2.7 The end of the administration

The Administration of the Company will end automatically after twelve months following the date of the Joint Administrators' appointment, although this period can be extended by either the creditors or an application to Court.

It is proposed that the Administration will end either through a subsequent liquidation or via dissolution depending on whether there are any assets remaining at the end of the Administration.

Currently, the Joint Administrators do not anticipate that there will be any assets remaining at the end of the Administration. Accordingly, it is proposed that if at the end of the Administration the Company has no property which might permit a distribution to its creditors other than by way of the Prescribed Part, the Joint Administrators will send a

notice to that effect to the Registrar of Companies. On registration of the notice the Joint Administrators' appointment will come to an end. In accordance with the provisions of paragraph 84(6) of Schedule B1 to the Insolvency Act 1986 the Company will be deemed to be dissolved three months after the registration of the notice.



### 3. Statement of Affairs

The directors submitted their Statement of Affairs relating to the Companies on 9 October 2018. A summary of the Statement of Affairs for the Companies is included at Appendix E for reference. The full Statement of Affairs for each will be made available on the website we have established in relation to the insolvency of the Companies, the website address for which is <https://www.ey.com/uk/en/services/transactions/restructuring/ey-ppg-petrostem-insolvencies>

Whilst we have not reviewed these Statement of Affairs in detail we would note that a number of creditor claims have yet to be quantified and may be different to that indicated.

We provide below, for information, an indication of the current position with regard to creditors' claims. The figures have been compiled by the Companies' management and have not been subject to independent review or audit.

#### 3.1 Secured creditors

The principal lender to the PPG Group is Bank of Scotland plc ("BoS"). As at 29 August 2018, the debt due by the PPG Group to BoS was \$30.7m. This debt comprises amounts directly owed by the PPG Group to BoS, and amounts due to BoS by the PPG Group under cross-guarantees granted in favour of BoS in relation to its lending to certain companies within the Petrostem and Maxtube Groups. The balance is comprised of:

- ▶ An overdraft facility (\$10m facility, drawn to \$10.8m);
- ▶ Term loan (\$0.5m);
- ▶ Revolving credit facility (\$15m);
- ▶ Guarantee facility (\$5m, drawn to \$4.3m of which \$2.8m relates to Maxtube Group, which continues to trade out with insolvency as a going concern); and
- ▶ Credit card facilities exposure of \$0.1m.

The Company has granted in favour of BoS a debenture covering all stock, trade debtors, intercompany debtors and other asset. Accordingly, all assets of the Company are secured to BoS.

It remains too early to estimate the likely recovery to BoS in respect of the amounts due to it by the PPG Group.

#### 3.2 Preferential creditors

The Directors' Statement of Affairs estimates preferential creditors of \$40k in respect of claims for employees' holiday pay. However, the Joint Administrators believe this claim to be \$56k.

As claims are received, we will be in a position to more accurately quantify the value of preferential creditor claims.

We currently estimate that preferential claims will be paid in full.

#### 3.3 Unsecured, non-preferential creditors

The Company's records indicate that non-preferential creditors may aggregate to c. \$18.5m.

Creditor claims may be higher due to contingent claims and other non-priority creditor amounts not included in the Company's records.

As the Company's assets are secured to BoS, we do not expect any recovery for unsecured non-preferential creditors of the Company.

### 3.4 Creditor claims

Please note that debts incurred by the Company before our appointment will rank as unsecured non-preferential claims. If you have a claim, please forward details together with supporting documentation (e.g. invoices, statements and agreements) to Ernst & Young LLP, G1, 5 George Square, Glasgow, G2 1DY, marked for the attention of Sanjay Chita, or, alternatively, to the following email address: [ppcgroup@uk.ey.com](mailto:ppcgroup@uk.ey.com).

Certain debts due from the Company may be preferential in accordance with Section 386 of the Insolvency Act 1986. If you consider that you have a claim in this category, please advise me immediately. If you hold any security for your claim or you consider that you have title to any assets in the Company's possession, please forward details to me as soon as possible.

Any sums due to the Company arising after our appointment must be paid in full and without set-off against any debts incurred by the relevant company prior to our appointment.

## 4. Prescribed part

The prescribed part is a proportion of floating charge assets set aside for unsecured creditors pursuant to section 176A of the Insolvency Act 1986. The prescribed part applies to floating charges created on or after 15 September 2003.

As the debenture granted in favour of BoS was created on 19 June 2000, the Prescribed Part provisions do not apply to the administration of the Company. Accordingly, there will be no Prescribed Part available for distribution to the unsecured non-preferential creditors of the Company.

## 5. Administrators' receipts and payments

A summary of the Administrators' receipts and payments for the period from 29 August 2018 to 5 October 2018 is attached at Appendix C.

## 6. Administrators' remuneration, expenses, disbursements and payments to other professionals

### 6.1 Remuneration

The statutory provisions relating to remuneration are set out in Chapter 4, Part 18 of the Insolvency (England and Wales) Rules 2016. Further information is given in the Association of Business Recovery Professionals' publication 'A Creditors' Guide to Administrators' Fees', a copy of which may be accessed from the website of the Institute of Chartered Accountants in England and Wales at <https://www.icaew.com/en/technical/insolvency/creditors-guides> or is available in hard copy upon written request to the Joint Administrators.

The Joint Administrators are seeking approval for their remuneration to be fixed on the basis of time properly given by them and their staff in dealing with matters arising in the Administration and the hourly rates set out below, in accordance with the fee estimate which is being circulated to creditors at the same time as these proposals.

Grade	Hourly rate (\$)	Equivalent hourly rate (£)
Partner	855	658
Executive Director / Director	700	538
Senior Manager	590	454
Manager	490	377
Senior (Level 3)	450	346
Senior (Level 1 / 2)	355	273
Analyst	210	162
Intern	185	142

The Joint Administrators further intend to seek permission to draw their remuneration four weekly in arrears, with a one-off initial payment covering their remuneration from 29 August 2018 to Friday 5 October 2018 (such remuneration to be fixed on the basis outlined above).

In the event that a creditors' decision is not requested and a creditors' committee is not formed, the Joint Administrators will seek to have their remuneration fixed by the secured and preferential creditors, in accordance with Rule 18.18(4) of the Rules.

To 5 October 2018, the Joint Administrators have incurred time costs (based on the above hourly rates) of \$111,244. Attached at Appendix D is a detailed analysis of time spent and charge out rates for each grade of staff for the various areas of work carried out to 5 October 2018 as required by the Association of Business Recovery Professionals' Statement of Insolvency Practice No. 9.

### 6.2 Disbursements

Appendix D also includes a statement of the Joint Administrators' policy for charging disbursements. In the event that a creditors' meeting is not requisitioned and a creditors' committee is not formed, the Joint Administrators will seek the approval of the secured creditor and preferential creditors to charge and draw disbursements in accordance with the charging policy set out in Appendix D

### 6.3 Explanation of expenses incurred and anticipated to be incurred

Expenses comprise sums paid or to be paid to third parties and sums paid or payable to the Joint Administrators' firm in respect of out of pocket expenses and costs which include an element of shared or allocated costs.

An estimate of payments is provided with the fee estimate which is being circulated to creditors at the same time as these proposals.

### 6.4 Payments to other professionals

The Joint Administrators have engaged the services of the following during the course of the liquidations:

Name of firm	Nature of service	How contracted to be paid
Pinsent Masons	Legal advisors - UK and UAE	Time costs
Carey Olsen	Legal advisors - Jersey and Cayman Islands	Time costs
ANM Group	Asset safeguarding and realisation strategy	Time costs

The Joint Administrators have selected ANM for three key reasons:

- ▶ ANM is well-known to the Joint Administrators and we have worked together successfully on a number of projects over the years.
- ▶ ANM has the requisite experience of the international oil and gas industry including experience of selling assets overseas. Their credentials include recent experience with 9 oilfield services businesses.
- ▶ The specific individual that the Joint Administrators are working with at ANM Group has lived and worked in the Middle East for several years. His work experience over that period includes some significant oil and gas related projects.

## 7. Other Matters

### 7.1 Opting out

Under the provisions of Rule 1.39, creditors have the right to elect to opt out of receiving further documents relating to the administration.

If you do elect to opt out you will still receive the following documents:

- ▶ Any which the Insolvency Act requires to be delivered without expressly excluding opted-out creditors;
- ▶ Notice relating to a change in the administrators, or their contact details;
- ▶ Notice of dividend or proposed dividend; or
- ▶ A notice which the court orders to be sent to all creditors, or all creditors the particular category to which you belong.

Any election to opt-out will not affect your entitlement to receive dividends, if any are paid.

Unless the Rules provide to the contrary, opting-out will not affect your rights to vote in a decision procedure or participate in a deemed consent procedure, although you would not receive notice of such procedures.

Any opted-out creditors will be treated as opted out in respect of any consecutive insolvency procedure which might follow the Administration.

You may opt-out by delivering an authenticated (e.g. signed) and dated notice to me stating that you are electing to be an opted-out creditor in relation to this Administration. You may at any time revoke this election by delivering to me an authenticated and dated notice stating that you no longer wish to be an opted-out creditor.

### 7.2 Matters to be brought to the attention of the Joint Administrators

If there are any matters concerning the Company's affairs which you consider may require investigation and consequently should be brought to our attention, please forward the details to me in writing as soon as possible.

### 7.3 Reporting

The Joint Administrators shall provide a report regarding the conduct of the Administration of the Company covering each six month period from the date of appointment. The report will be provided within one month of each six month period (i.e. by 28 March 2019 in respect of the report covering the six months to 28 February 2019).

The report will be made available on the following website:

<https://www.ey.com/uk/en/services/transactions/restructuring/ey-ppg-petrostem-insolvencies>

Should you wish to discuss any aspect of this report, please contact John Loudon on 0113 298 2315.

## Appendix A Statutory information

### Company Information

Company Name:	Petroleum Pipe Company Limited - in Administration
Registered Office Address:	c/o Ernst & Young LLP 1 Bridgewater Place Water Lane Leeds LS11 5QR
Registered Number:	03022675
Date of incorporation:	16 February 1995
Trading Name(s):	n/a
Trading Address(es):	9-11 Grosvenor Gardens, London, SW1W 0BD Morgan Properties, 7 Queens Garden, Aberdeen

### Details of the Administrators and of their appointment

Administrators:	Colin Peter Dempster and Gavin David Yuill
IP number:	8908 and 14218
Date of Appointment:	29 August 2018
By Whom Appointed:	The appointment was made by the Company's Directors
Court Reference:	High Court of Justice, Business and Property Courts of England and Wales: CR-2018-007196

Any of the functions to be performed or powers exercisable by the administrators may be carried out/exercised by any one of them acting alone or by any or all of them acting jointly.

### Statement concerning the EC Regulation

The EC Council Regulation on Insolvency Proceedings does apply to this administration and the proceedings are main proceedings. This means that this Administration is conducted according to UK insolvency legislation and is not governed by the insolvency law of any other European Union Member State.

### Share capital

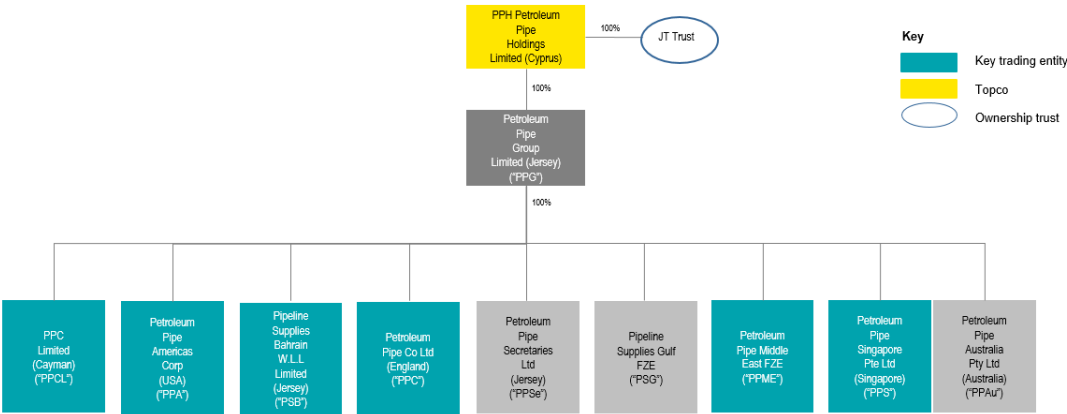
Class	Authorised		Issued and fully paid	
	Number	\$000	Number	\$000
Ordinary (£1 translated to USD)	10,000,000	15,253	1,500,000	2,288



**Directors and their shareholdings**

<b>Name</b>	<b>Director or Secretary</b>	<b>Date appointed</b>	<b>Date resigned</b>	<b>Current shareholding</b>
Richard Mark Farnfield	Director	20 September 2004	-	-
Richard Gordon Morrice	Director	29 March 1999	-	-
Andrew John Martin	Director	8 October 1997	31 March 2018	-
Petroleum Pipe Secretaries Limited	Company secretary	9 October 2008	-	-

# Appendix B      Group Structure



## Appendix C Administrators' receipts and payments account for the period from 29 August 2018 to 5 October 2018

### Petroleum Pipe Company Limited (In Administration) Receipts and Payments for the period from 29 August 2018 to 5 October 2018

Estimated to realise as per Directors' Statement of Affairs US\$		US\$	GB£	AED	Total US\$
	<b>Receipts</b>				
1,345	Cash at Date of Appointment	-	877	-	1,140
688,097	Pre-appointment debtors	688,083	-	-	688,083
51,670	Stock	-	-	-	-
183,728	VAT receivable	-	-	-	-
	Cancellation of Exchange rate swap	191,991	-	-	191,991
	Bank Interest	-	0	-	0
	Balance on Administrators' Trading account (see separate account for breakdown)	(242,662)	(180)	-	(242,895)
	<b>Total Receipts</b>	<b>637,412</b>	<b>697</b>	<b>-</b>	<b>638,318</b>
	<b>Payments</b>				
		-	-	-	-
	<b>Total Payments</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
	<b>Net Receipts / (Payments) for the period</b>	<b>637,412</b>	<b>697</b>	<b>-</b>	<b>638,318</b>
	<b>Represented by:</b>				
	Bank balances at at 5 October 2018				
	Royal Bank of Scotland	828,390	697	-	829,296
	Inter-company - PPC Limited (In Liquidation)	(193,030)	-	-	(193,030)
	VAT Recoverable	2,052	-	-	2,052
		<b>637,412</b>	<b>697</b>	<b>-</b>	<b>638,318</b>

### Summary of Joint Administrators' trading account for the period from 29 August 2018 to 5 October 2018

	US\$	GB£	AED	US\$
<b>Receipts</b>				
Trading sales	-	-	-	-
<b>Total Receipts</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Payments</b>				
Shipping / Freight charges	193,030	-	-	193,030
Wages / Salaries	14,759	-	-	14,759
Software Licence	10,258	-	-	10,258
Insurance	24,564	-	-	24,564
Sundry Expenses	-	180	-	234
Bank charges	51	-	-	51
<b>Total Payments</b>	<b>242,662</b>	<b>180</b>	<b>-</b>	<b>242,895</b>
<b>Balance on Administrators' trading account</b>	<b>(242,662)</b>	<b>(180)</b>	<b>-</b>	<b>(242,895)</b>

1. Receipts and payments are stated net of VAT or other applicable goods and services taxes.
2. These accounts do not reflect estimated future realisations or associated costs.
3. The following exchange rates have been applied to the above: GB£:US\$, 1.3; and US\$:AED, 3.673

## Appendix D Statement of administrators' charging policy for remuneration and disbursements pursuant to Statement of Insolvency Practice No.9

The Joint Administrators have engaged managers and other staff to work on the Administration. The work required is delegated to the most appropriate level of staff taking account of the nature of the work and the individual's experience. Additional assistance is provided by accounting and treasury executives dealing with the Company's bank accounts and statutory compliance diaries. Work carried out by all staff is subject to the overall supervision of the Joint Administrators.

All time spent by staff working directly on case-related matters is charged to a time code established specifically for this engagement. Time is recorded in units of six minutes. Each member of staff has a specific hourly rate, which is subject to change over time. The average hourly rate for each category of staff over the period is shown below:

Grade	Hourly rate (\$)	Equivalent hourly rate (£)
Partner	855	658
Executive Director / Director	700	538
Senior Manager	590	454
Manager	490	377
Senior (Level 3)	450	346
Senior (Level 1 / 2)	355	273
Analyst	210	162
Intern	185	142

Note: Equivalent hourly rate is based on exchange rate of £1 / \$1.30

A summary of the Joint Administrators' time costs from 29 August 2018 to 5 October 2018 has been provided below. The time spent by the Administrators and their staff to date primarily relates to the following matters:

- ▶ Fulfilling the statutory obligations required of the Joint Administrators' including notifying the Joint Administrators' appointment to all known creditors;
- ▶ Employee matters;
- ▶ Seeking to complete the outstanding customer order referred to at Section 2.2.2 above;
- ▶ Pursuing collection of the Company's outstanding debtors ledger;
- ▶ Negotiating the sale of the IT equipment and software owned by the Company;
- ▶ Liaising with the landlords of the Company's offices and yards in Aberdeen and London; and

- Addressing correspondence received from creditors.

## Summary of Joint Administrators' time costs for the period from 29 August to 5 October 2018

Hours	Partner	Executive Director / Director	Senior Manager	Manager	Senior	Total Hours	Total time costs (\$)	Average hourly rate (\$)
Classification of work function								
Accounting and Administration			0.6		19.2	19.8	7,170	362
Bank & Statutory Reporting	2.5	0.1	5.3			7.9	5,335	675
Creditors		3.7				3.7	2,590	700
Debtors	0.5	3.1	1.8			5.4	3,660	678
Employee Matters		0.5	8.0		4.7	13.2	6,739	510
Immediate Tasks	0.5	9.7	1.1	22.5	1.0	34.8	19,247	553
Other Assets		3.4				3.4	2,380	700
Other Matters		3.8	2.8			6.6	4,312	653
Property			8.6			8.6	5,074	590
Statutory Duties	1.5	2.4		20.0	16.0	39.9	18,443	462
Stock and Fixed Assets		0.4		5.0	8.0	13.4	5,570	416
Trading		1.5	3.0	39.0		43.5	21,930	504
VAT & Taxation		0.4	9.2		8.7	18.3	8,797	481
<b>Total hours</b>	<b>5.0</b>	<b>29.0</b>	<b>40.4</b>	<b>86.5</b>	<b>57.6</b>	<b>218.5</b>	<b>111,244</b>	<b>509</b>
<b>Total time costs (\$)</b>	<b>4,275</b>	<b>20,300</b>	<b>23,836</b>	<b>42,385</b>	<b>20,448</b>		<b>111,244</b>	
<b>Average hourly rate (\$)</b>	<b>855</b>	<b>700</b>	<b>590</b>	<b>490</b>	<b>355</b>			

## Administrators' charging policy for disbursements

Statement of Insolvency Practice No. 9 divides disbursements into two categories.

Category 1 disbursements are defined as specific expenditure relating to the administration of the insolvent's affairs and referable to payment to an independent third party. Such disbursements can be paid from the insolvent's assets without approval from the Creditors' Committee or the general body of creditors. In line with Statement of Insolvency Practice No. 9, it is our policy to disclose Category 1 disbursements drawn but not to seek approval for their payment. We are prepared to provide such additional information as may reasonably be required to support the disbursements drawn.

Category 2 disbursements are charges made by the office holder's firm that include elements of shared or overhead costs. Statement of Insolvency Practice No. 9 provides that such disbursements are subject to approval as if they were remuneration.

It is our policy, in line with the Statement, to seek approval for Category 2 disbursements before they are drawn.

To date, no Category 1 or Category 2 expenses have been incurred. It is proposed that Joint Administrators be permitted to draw any future expenses.

## Appendix E Statement of Affairs

	Book value \$	Estimated to realise \$
Assets subject to floating charge		
Cash in hand and at bank	1,345	1,345
Stock	516,669	51,670
Trade debtors	2,292,625	688,097
Prepayments	127,793	-
Deposits	219	-
Prepayments to customer contracts	2,044,039	-
Receivables from related party	11,262,374	-
VAT receivable	183,728	183,728
Uncharged assets		
Nil	-	-
<b>Estimated total assets available for preferential creditors</b>	<b>16,428,792</b>	<b>924,840</b>
Liabilities		
Preferential creditors - employees	40,039	40,039
<b>Estimated deficiency / surplus as regards preferential creditors</b>	<b>16,388,753</b>	<b>884,801</b>
Estimated prescribed part of net property	-	-
<b>Estimated total assets available for floating charge holders</b>	<b>16,388,753</b>	<b>884,801</b>
Debts secured by floating charges		
BoS - bank overdraft	5,036,308	5,036,308
BoS - Obligations under cross-guarantees	-	23,615,445
<b>Estimated deficiency / surplus of assets after floating charges</b>	<b>11,352,445</b>	<b>(27,766,952)</b>
Estimated prescribed part of net property (brought down)	-	-
<b>Total assets available to unsecured creditors</b>	<b>11,352,445</b>	<b>-</b>
<b>Unsecured non-preferential claims</b>		
Trade creditors	927,996	927,996
Accruals for customer contracts	683,462	683,462
Long term creditors - Salzgitter Mannesmann GmbH	10,140,202	10,140,202
Payables to related party	6,598,331	6,598,331
HMRC - PAYE/NIC	49,263	49,263
Employees	76,194	76,194
	<b>18,475,448</b>	<b>18,475,448</b>
<b>Estimated deficiency as regards non-preferential creditors (excluding shortfall to floating charge holders creditors)</b>	<b>(7,123,003)</b>	<b>(18,475,448)</b>
Shortfall to floating charge holders (brought down)	-	(27,766,952)
<b>Estimated deficiency as regards creditors</b>	<b>(7,123,003)</b>	<b>(46,242,400)</b>
Preference shares issued	-	-
<b>Estimated deficiency as preference shareholders</b>	<b>(7,123,003)</b>	<b>(46,242,400)</b>
Issue and called-up share capital	2,288,292	2,288,292
<b>Estimated deficiency as regards members</b>	<b>(9,411,295)</b>	<b>(48,530,692)</b>

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