Petrostem (UK) 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
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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
PAL	Petrostem Assets Limited
PGL	Petrostem Group Limited – in Liquidation
PIL	Petrostem International Limited – in Liquidation
PRL	Petrostem Rentals Limited – in Liquidation
the Banking Group	together, the PPG Group, the Petrostem Group and the Maxtube Group
the Company	Petrostem (UK) 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	The Petrostem Group of Companies, a structure chart for which is provided at Appendix B
the Pioneer Group	Pioneer Group Ventures Limited and its subsidiary undertakings
the PPG Group	Petroleum Pipe Group Limited (In Liquidation) and its subsidiary undertakings
the Rules	the Insolvency (England and Wales) Rules 2016
WAFRA	Wafra Capital Partners Inc

Contents

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 Petrostem Group of Companies ('the Petrostem Group'). On 28 August 2018, three other companies within the Petrostem Group also entered insolvency. Specifically, the Royal Court of Jersey ordered that, pursuant to Article 155 of the Companies (Jersey) Law 1991, Petrostem Group Limited ('PGL'), Petrostem Rentals Limited ('PRL') and Petrostem International Limited ('PIL') 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.

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 and liquidations.

1.2 Background

The Petrostem Group was formed in 2007 and its principal activity is the rental (and supply) of surface and downhole drilling tools, such as drilling pipe and collars, to drilling contractors / oil field service businesses.

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

Historically, most of its revenue was generated from one-off rentals to customers – but over the past 12 months, it has sought to provide a firmer revenue "bedrock" by putting in place longer-term contracts with customers.

The Petrostem Group has a network of stock yards and offices across the globe. Each of these yards and offices is leased.

The Petrostem Group's headcount on the date of appointment totalled 29 (following a number of redundancies being made by management prior to the appointment of the Joint Liquidators and Joint Administrators). At the date of appointment, the Company directly employed 1 of the Petrostem Group's workforce.

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

The Company principally traded with customers in Europe. Its annual revenues in FY18 were $1.7m. Consistent with the Company's trading activities, the main assets of the Company are trade debtor balances and tangible assets being drill pipe and related equipment.

1.3 Financial information

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

$m	FY14	FY15	FY16	FY17	FY18
Revenue	**-**	**-**	**-**	**1.3**	**1.7**
Cost of Sales	-	-	(0.1)	(1.2)	(0.9)
Gross profit	**-**	**-**	**(0.1)**	**0.1**	**0.8**
Gross profit margin	-	-	-	*4.6%*	*48.7%*
Overheads	-	(0.1)	(0.5)	(0.5)	(0.6)
EBITDA	**-**	**(0.1)**	**(0.6)**	**(0.4)**	**0.3**
Depreciation	-	-	-	-	(0.6)
Interest	-	-	-	-	-
Taxation	-	-	-	-	-
Net profit/(loss)	**-**	**-**	**(0.6)**	**(0.4)**	**(0.3)**

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 Petrostem Group. Due to the inter-relationships between each company in the Petrostem Group and their common management, throughout the remainder of this section of the report we refer to the activities of the whole Petrostem Group. This wider context of the Petrostem 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 Petrostem Group can be summarised as follows:

$m	FY14	FY15	FY16	FY17	FY18
Revenue	**37.6**	**42.0**	**14.2**	**13.7**	**21.6**
Cost of Sales	(16.7)	(17.0)	(8.1)	(11.3)	(23.3)
Gross profit	**20.9**	**25.0**	**6.1**	**2.4**	**(1.7)**
Gross profit margin	*55.5%*	*59.5%*	*42.7%*	*17.4%*	-
Overheads	(7.9)	(12.5)	(10.7)	(9.4)	(8.9)
Other income	-	1.7	-		-
EBITDA	**13.0**	**14.1**	**(4.7)**	**(7.0)**	**(10.6)**
Depreciation	(9.3)	(14.9)	(18.4)	(3.0)	(4.2)
Exceptional costs	-	-	(2.0)	(4.0)	-
Interest	(2.6)	(5.3)	(5.8)	(3.8)	(3.3)
Taxation	(0.5)	(0.3)	(0.2)	-	(0.3)
Net profit/(loss)	**0.7**	**(5.7)**	**(31.0)**	**(17.9)**	**(18.4)**

Source: Petrostem Group Management Accounts for FY14-FY18

Following two years of profitability, the Petrostem Group has recorded EBITDA losses since FY16. Over that three year period from FY16, revenue fell $20.4m (49%) and EBITDA losses aggregated $22.3m. These losses have been driven by a substantial reduction in revenue, attributable to the downturn in the oil and gas market in 2014 and the impact of the instability in the Kurdistan region of Iraq.

Note that FY17 results reflected a one-off asset sale of $5.0m (gross margin - $2.9m), the release of a stock provision ($0.7m), an insurance settlement ($0.4m) and margin / interest charges to the Major Creditors of $6.2m, such that underlying revenues, gross margin and EBITDA losses were $8.7m, $4.5m and $4.9m respectively. Interest charges are similarly understated by $6.2m.

Both prior to and since FY17, Petrostem Group benefitted from extended credit terms afforded to it by these Major Creditors. Whilst the majority of the debt due to the Major Creditors is contractually due by the PPG Group, we understand that the credit provided by the Major Creditors was predominantly utilised by the Petrostem Group. Accordingly, interest charges were typically recorded in the financial records of Petrostem Group.

Whilst the Petrostem Group's trading performance in FY18 showed some improvement, with revenue increasing by $7.9m (58%), it nevertheless recorded a significant EBITDA loss of $10.6m driven by losses on asset sales and accruing interest charges in relation to the debt provided by the Major Creditors.

Trading results in FY17 and FY18 also reflect the significant interest costs incurred by the Petrostem Group in respect of its borrowing facilities with Bank of Scotland plc ('BoS') and the extended credit terms agreed with the Major Creditors.

Exceptional costs in FY16 and FY17 represent a provision against amounts due to the Petrostem Group by the Pioneer Group in consequence of the political uncertainty in the Kurdistan region of Iraq.

1.3.2 Forecast trading performance

Forecast trading performance summary

$m	FY18	FY19		FY19F	YTDFY19
	Actual	Forecast		Forecast 2m	Actual 2m
Revenue	**21.6**	**23.9**		**4.0**	**2.8**
Cost of Sales	(23.3)	(13.9)		(2.3)	(6.2)
Gross profit	**(1.7)**	**10.0**		**1.7**	**(3.4)**
Gross profit margin	-	*41.9%*		*41.9%*	-
Overheads	(8.9)	(8.4)		(1.5)	(1.4)
EBITDA	**(10.6)**	**1.6**		**0.2**	**(4.8)**
Depreciation	(4.2)	(5.3)		(0.9)	(0.8)
Interest	(3.3)	(0.8)		(0.1)	(0.5)
Taxation	(0.3)	-		-	(0.1)
Net profit	**(18.4)**	**(4.5)**		**(0.8)**	**(6.2)**

Source: Petrostem Group FY18 and May 2018 Management Accounts; Petrostem Group Financial Projections prepared in February 2018

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

In February 2018, it prepared trading projections for FY19 – FY21. These trading projections set out an EBITDA forecast of $1.6m for FY19 driven by a significant forecast increase in underlying revenues (excluding asset sales). We understand that these projections were predicated on verbal estimates from major customers. This forecast revenue growth exceeded Middle East market forecasts for drill pipe and collars and required Petrostem Group to achieve monthly revenue levels not consistently achieved since July 2015.

Note that the FY19 forecast presented above excludes interest accruing in relation to the extended credit terms agreed with the Major Creditors of c. $8.5m. Such interest charges were forecast separately on a consolidated basis for the Banking Group.

Actual results in the two months to 31 May 2018, however, show an EBITDA loss of $4.8m, a shortfall of over $5m to forecast levels.

1.3.3 Historical and forecast cash flows

Historical and future cash flow summary

$m	FY15	FY16	FY17	FY18	FY19
	Actual	Actual	Actual	Actual	Forecast
EBITDA	**14.2**	**(4.7)**	**(7.0)**	**(10.6)**	**1.6**
Working capital	10.8	4.4	(23.8)	(6.2)	1.4
Exceptional costs	-	(2.0)	(4.0)	-	-
Operating cash flow	**25.0**	**(2.3)**	**(34.8)**	**(16.8)**	**3.0**
Taxation	0.3	(0.2)	-	(0.3)	0.1
Fixed asset (acquisitions) / disposals	(20.9)	(17.1)	(6.1)	19.0	-
Financing cash flows					
Interest	(5.3)	(5.8)	(3.8)	(3.3)	(0.3)
Erbil Loan	(1.8)	3.5	5.0	1.1	-
Intergroup balances	(0.5)	1.8	(2.0)	(0.3)	(0.1)
Petroleum Pipe Group	-	-	37.4	55.6	4.0
Maxtube Group	-	-	12.4	2.8	
Pioneer Group	-	-	(4.1)	(24.2)	-
Innospection Group	-	-	(0.2)	(2.0)	-
WAFRA	-	-	-	-	(5.8)
KTT loan	-	-	2.4	(2.4)	
Total financing cash flows	**(7.6)**	**(0.5)**	**47.1**	**27.3**	**(2.0)**
Movement in retained earnings	**-**	**-**	**-**	**(2.9)**	**-**
Net cash inflow / (outflow)	**(3.2)**	**(20.1)**	**6.2**	**26.3**	**1.0**

Opening cash	(15.7)	(18.9)	(39.0)	(32.8)	(4.2)
Closing cash	**(18.9)**	**(39.0)**	**(32.8)**	**(6.5)**	**(3.2)**

Source: Petrostem Group Management Accounts for FY14-FY18 and May 2018; FY19 Petrostem Group Financial Projections, as prepared in February

Notes:

1. *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.*
2. *Whilst we await confirmation of this, we understand that the movement in retained earnings in FY18 relates to the impact of adjustments to retained earnings brought forward not reflected in the Petrostem Group's management accounts at 31 March 2018.*
3. *An analysis of intergroup balances is awaited. We, however, understand cash flow movements in FY15-FY17 relate to the Banking Group, whilst those in FY18 relate to MRS, Innospection and Pioneer Groups.*

Whilst Petrostem Group recorded an operating cash inflow in FY15, in each of the three years from FY16 to FY18 it recorded an operating cash outflow, driven by its declining trading performance. Over this three year period, aggregate operating cash outflows were $54m.

Notwithstanding this, the Petrostem Group continued to invest in its fixed asset base in anticipation of a recovery in its key markets and to assist its diversification away from Kurdistan. Total net capital expenditure over FY15 to FY17 was $44.1m. Information supplied by the Petrostem Group suggests that utilisation in FY17 averaged 6%. These acquisitions were partially funded by WAFRA ($20m provided in FY14). In the period to FY17, the remainder of these fixed asset acquisitions (and Petrostem Group's operating cash outflows) were funded by Petroleum Pipe Group ($37.4m) and Maxtube Group ($12.4m).

In FY18, the Petrostem Group sought to address its deteriorating cash flow position through fixed asset disposals ($19.0m). Further funding of $58.4m was provided by Petroleum Pipe Group ($55.6m) and Maxtube Group ($2.8m).

The cash flow summary presented above also highlights that funding of $30.5m was provided to Pioneer Group ($28.2m) and Innospection Group ($2.2m) in FY17 and FY18. Whilst we await information on the application by Pioneer Group and Innospection Group of this funding, we understand it has been applied to fund trading losses and to invest in their fixed assets.

Note that the FY17 working capital cash outflow of $23.8m reflects the reclassification of debts due to the Major Creditors from Petrostem Group's balance sheet to PPG Group's balance sheet (by whom these debts are typically contractually due).

Petrostem Group's cash flow projections for FY19 set out a projected inflow of $1.0m after the repayment in full of the Petrostem Group's outstanding debt due to WAFRA (who held security over certain of the Petrostem Group's assets) and $4.0m of funding from PPG Group. However, these cash flow projections excluded forecast payments of $12.6m to the Major Creditors (excluding BoS). These payments were forecast separately on a consolidated basis for the Banking Group.

1.4 Circumstances giving rise to the appointment of the Joint Administrators

1.4.1 Options considered by the Petrostem Group

In light of the above noted financial performance of the Petrostem 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 Petrostem Group implemented a number of operational changes including redundancies and property consolidation which resulted in an improved EBITDA forecast for FY19 of $1.6m.

Trading performance in the two months to 31 May 2018 was, however, materially behind expectations, with an EBITDA loss of $4.8m recorded in that 2 month period.

Further, as illustrated by the Petrostem Group's forecast cash flows, even a return to the forecast level of profitability in FY19 would have been insufficient to service the Petrostem Group's debt repayment obligations, which it estimated to be $18.7m in FY19.

The Petrostem 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 Petrostem Group's financial position – as the Petrostem Group required funding to meet its ongoing trading losses and working capital requirements.

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

1.4.1.2 Refinance

The Petrostem 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 Petrostem Group led to discussions with other parties being unsuccessful.

1.4.1.3 Solvent sale of business

The Petrostem 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 Petrostem Group to an independent third party immediately on insolvency was also considered. However, the Petrostem Group concluded that this was unachievable given the recent trading performance of the

Petrostem Group and that its key customer contracts were capable of being terminated by the customer on insolvency.

1.4.1.5 Insolvency

Based on the above, the Petrostem Group assessed that all options other than a full insolvency and managed wind-down of the Petrostem 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 Petrostem Group

EY were introduced to the Petrostem 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 Petrostem Group was significantly loss making and cash absorbent and it was considered unlikely that profitability could be achieved in the short term given the low levels of utilisation of the rental assets;

- The Company's rental agreements are terminable on insolvency; and

- The requirement to fund the repair and maintenance of rental equipment may have been detrimental to the position of the creditors.

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 affords a period of protection to allow the Company to continue to rent assets to its existing customers whilst the Joint Administrators seek a sale of the rental assets. No new rentals will, however, be commenced.

- Ongoing provision of the equipment on hire with customers is anticipated to reduce the potential set-off claims from customers and consequently protect the collection of trade debtor balances due from those customers.

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 20 of the Petrostem Group's employees, of which 1 is employed by the Company. We will carefully assess the staffing requirements on an ongoing basis and will make further redundancies as appropriate. However, we currently anticipate retaining this team for 2-3 months to support the insolvency of the Petrostem Group.

2.2 Asset realisations for the Company

As outlined at Section 1.2, the Company is one of the trading entities within the Petrostem Group. Consequently, the main assets of the Company are trade debtor balances and rental stock.

2.2.1 Rental assets

As at the date of our appointment, the Company held rental assets, principally comprising drill pipe and related tools / accessories, with a net book value of $2.2m (albeit an independent third party valuation prior to insolvency assessed the ex situ value of these assets to be materially lower).

With assistance from ANM Group Limited (a firm of specialist plant and equipment disposal agents with experience of dealing with assets located in the Middle East) and Dean Foster (a director of Petrostem Group, with detailed knowledge of the rental assets), the Joint Administrators launched a sale process in respect of these rental assets – and those held by all other companies within the Petrostem Group – on 7 September 2018. On that date, a list of these assets was issued to 41 interested parties across a range of market interests, with a deadline for offers of 11 September 2018.

The short closing date for offers was set for specific reasons, including to minimise the transition period for rental assets to new suppliers.

On the closing date, offers from 11 interested parties were received, each of whom submitted offers over one or more of the eight asset packages. No offers were received from parties connected with the Petrostem Group or PPG Group. The Joint Administrators / Joint Liquidators accepted (subject to conditions) offers from five separate interested parties across the eight asset packages. Unfortunately one offer has subsequently been withdrawn. Each of these offers were submitted subject to inspection of the rental assets and / or certification. Accordingly, there remains completion risk associated with these offers.

Whilst the accepted offers have yet to be completed, if completed at current levels, these offers would generate net sale proceeds of c. $0.4m for the Company. We anticipate completion of each of the remaining sales taking place in late October 2018.

2.2.2 Trade debtor balances

As at the date of our appointment, trade debtor balances due to the Company aggregated $0.3m. Accrued income, comprising uninvoiced amounts due in respect of the rental of assets to 28 August 2018, totalled $0.2m, which has now been invoiced in full.

Trade debtor balances comprise a mix of one-off rentals and rentals under framework / rental contracts. Customer contracts are typically terminable on insolvency and contain terms which entitle customers to retain the use of the rented assets on insolvency and to set off incremental costs they incur. Given the above, our strategy in relation to the collection of trade debtor balances has been:

- Where a rental contract is ongoing, seek to agree with the customer a managed handover of their rental contract to a new supplier over an agreed period during which they can continue to use the Company's rental assets in exchange for a) full settlement of the current receivable balance; and b) continued payment of ongoing rentals; and

- Where a rental contract is not ongoing, seek repayment of the receivable balance in the normal manner.

As at 18 October 2018, $0.2m of these amounts had been collected. The Joint Administrators are continuing to pursue the remaining balances and further realisations are expected.

2.2.3 Cash on appointment

The Company held no cash in non-BoS bank accounts at the date of appointment.

Petty cash of £517.20 was held and has now been deposited into the Company's post-appointment bank accounts.

2.2.4 VAT receivable

The Company is due a refund of $49k from HMRC in relation to pre-appointment VAT in respect of its VAT return for the quarter ending 30 June 2018. The Joint Administrators are in the process of submitting a VAT return up to the date of appointment. However, HMRC are owed a sum estimated at $6k in relation to unpaid PAYE and NIC deductions. HMRC are entitled to set these amounts against each other.

2.3 Asset realisations for the Petrostem Group

The other insolvent entities within the Petrostem 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 Petrostem 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 Petrostem 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:

- Collecting in the trade debtor balances due to the Company, and assisting with the handover of any ongoing rentals to a new supplier;
- Finalising the sale of the rental assets of the Company, and marketing for sale any rental assets not so included;
- Realising any other assets;
- 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;
- If appropriate, agreeing unsecured creditor claims and distributing the Prescribed Part;
- 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.

If the only distribution to unsecured creditors is from the Prescribed Part, as is expected, then the Joint Administrators are required to distribute the Prescribed Part during the Administration, rather than placing the Company into liquidation simply for this purpose.

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 the following:

- The "estimated to realise" balance for trade receivables (both invoiced and not invoiced) appears to relate only to amounts collected as at the date of preparation of the Statement of Affairs. Collections as at the date of this report have, as outlined at section 2.2.2 have exceeded this estimate; and

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

3.2 Preferential creditors

We currently estimate preferential creditors of $5k in respect of claims for employees' salaries and holiday pay.

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 $4.7m.

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 from its insolvency process, other than by virtue of the Prescribed Part (further detail is provided at Section 4).

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: petrostemgroup@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. The relevant charge for the Company was created on 25 June 2015.

The Joint Administrators do not currently intend to make an application to the Court under section 176A(5) of the Insolvency Act 1986 for an order not to distribute the Prescribed Part.

The level of forecast recoveries currently remains uncertain and will depend on the success of the asset realisation process, principally realisations from the collection of the Company's book debts and sale of its rental assets.

Consequently, the Joint Administrators are unable to estimate the timing or quantum of any distribution to non-preferential, unsecured creditors under the Prescribed Part at the present time.

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 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 $95,796. 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. To date, Category 1 expenses totalling $5,236 have been incurred.

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 a drilling pipe / accessories rental business, but they also have recent experience with 8 other 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 Louden on 0113 298 2315.

Appendix A Statutory information

Company Information

Company Name:	Petrostem (UK) Limited – in Administration
Registered Office Address:	c/o Ernst & Young LLP 1 Bridgewater Place Water Lane Leeds LS11 5QR
Registered Number:	03581607
Date of incorporation:	15 June 1998
Trading Name(s):	n/a
Trading Address(es):	DFC House, Claymore Drive, Bridge of Don, Aberdeen, AB23 8GB Salyan Highway, Garadag, Baku City, Azerbaijan

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-2018-007195

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.

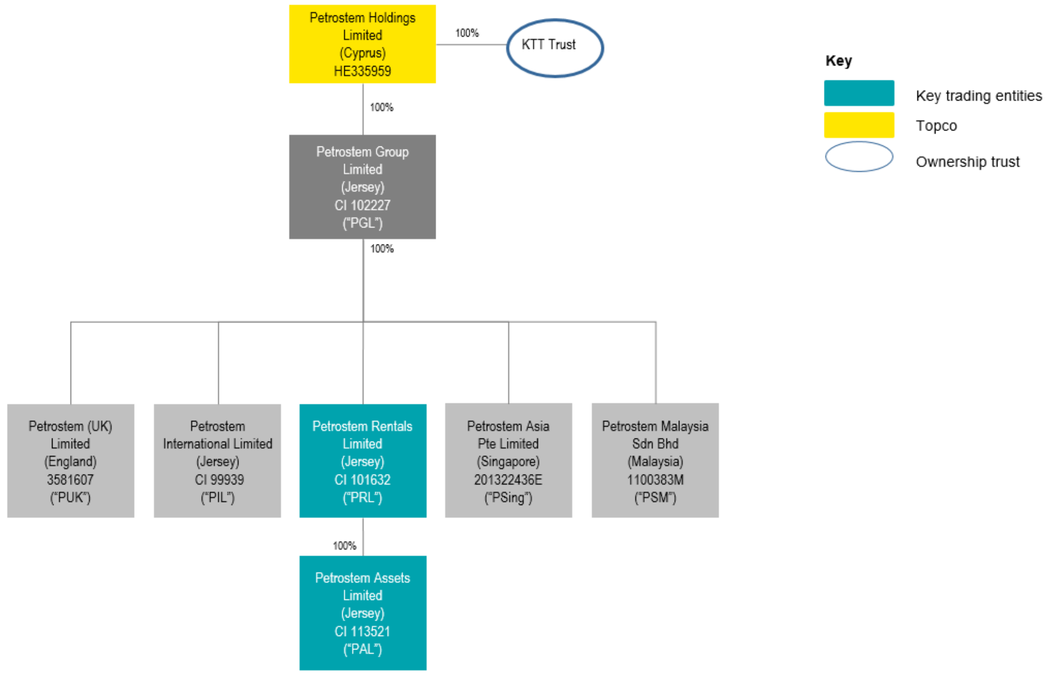
Share capital

Class	Authorised		Issued and fully paid	
	Number	£000	Number	£000
Ordinary (£1)	10,000	10,000	10,000	10,000

Directors and their shareholdings

Name	Director or Secretary	Date appointed	Date resigned	Current shareholding
Richard Gordon Morrice	Director	23 March 1999	-	-
Julian Charles Tyacke	Director	28 February 2018	-	-
Peter Duthie	Director	3 May 2016	11 January 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

Estimated to realise as per Directors' Statement of Affairs US$	Receipts	US$	GB£	Total US$
-	Cash at Bank	-	-	-
672	Cash in Hand - petty cash	-	517	672
200,000	Tangible assets	-	-	-
42,274	Pre-appointment debtor collections	11,151	23,571	41,793
46,696	VAT receivable	-	-	-
	Bank interest received	-	0	1
289,642		**11,151**	**24,089**	**42,466**
	Payments			
	Net wages and salaries	-	6,574	8,547
		-	**6,574**	**8,547**
	Net Receipts / (Payments) for the period	**11,151**	**17,514**	**33,919**
	Represented by:			
	Cash in hand	-	517	672
	Bank balances at at 5 October 2018			
	Royal Bank of Scotland	-	4,160	5,408
	Bank of Scotland	11,151	19,411	36,385
	Intercompany - Petrostem International Limited (In Liquidation)		(6,574)	(8,547)
		11,151	**17,514**	**33,919**

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.

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 preparation of this report, notifying the Joint Administrators' appointment to all known creditors;
- Employee matters;
- Making arrangements for the marketing and sale of the Company's rental assets as referred to at Section 2.2.1;
- Pursuing collection of the Company's outstanding debtors ledger;
- Liaising with the landlords of the Company's offices and yards in Aberdeen and Azerbaijan; 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			8.1	2.7	37.5	48.3	19,415	402
Bank & Statutory Reporting	2.5	0.1	0.7	0.5	4.5	8.3	4,463	538
Creditors		0.8	0.5	1.0	5.0	7.3	3,120	427
Debtors			1.9	9.0	24.0	34.9	14,051	403
Employee Matters		0.6	1.1	1.0	5.3	8.0	3,441	430
Immediate Tasks	0.5	2.7			39.0	42.2	16,163	383
Other Assets	0.5	4.1				4.6	3,298	717
Other Matters		5.2	2.3			7.5	4,997	666
Property				1.0		1.0	490	490
Statutory Duties		2.4	0.3		10.4	13.1	5,549	424
Stock and Fixed Assets	1.5	0.6	0.8	5.0	12.0	19.9	8,885	446
Trading	1.5		5.6	13.0		20.1	10,957	545
VAT & Taxation			0.2		2.4	2.6	970	373
Total hours	**6.5**	**16.5**	**21.5**	**33.2**	**140.1**	**217.8**	**95,796**	**440**
Total time costs ($)	**5,558**	**11,550**	**12,685**	**16,268**	**49,736**		**95,796**	
Average hourly rate ($)	**855**	**700**	**590**	**490**	**355**			

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, Category 1 expenses totalling $5,236 have been incurred, as detailed in the table below:

Category 1 disbursements	Incurred ($)	Drawn to date ($)	Outstanding ($)
Accommodation	1,681	-	1,681
Transport	3,035	-	3,035
Subsistence	520	-	520
Total	**5,236**	**-**	**5,236**

It is proposed that Joint Administrators be permitted to draw these and any future expenses.

Appendix E Statement of Affairs

	PUK	PUK
	Book value	Estimated to realise
	US$	US$
Assets subject to floating charge		
Cash in hand and at bank	421,085	672
Trade debtors	471,915	42,274
Tangible assets	2,224,662	200,000
Other receivables	7,617	-
VAT receivable	46,896	46,896
Uncharged assets		
Nil	-	-
Estimated total assets available for preferential creditors	**3,172,175**	**289,842**
Preferential creditors - employees	(5,185)	(5,185)
Estimated deficiency / surplus as regards preferential creditors	**3,166,990**	**284,657**
Estimated prescribed part of net property	(600,000)	(60,831)
Estimated total assets available for floating charge holders	**2,566,990**	**223,826**
Debts secured by floating charges		
BoS - credit card	(181)	(181)
BoS - Obligations under cross-guarantees	(28,651,572)	(28,651,572)
Estimated deficiency / surplus of assets after floating charges	**(26,084,763)**	**(28,427,927)**
Estimated prescribed part of net property (brought down)	600,000	60,831
Total assets available to unsecured creditors	**600,000**	**60,831**
Unsecured non-preferential claims		
Trade creditors	(461,037)	(461,037)
HMRC	(5,710)	(5,710)
Related party	(4,194,428)	(4,194,428)
Employees	(1,971)	(1,971)
	(4,663,146)	**(4,663,146)**
Estimated deficiency as regards non-preferential creditors (excluding shortfall to floating charge holders creditors)	**(4,063,146)**	**(4,602,315)**
Shortfall to floating charge holders (brought down)	(26,084,763)	(28,427,927)
Estimated deficiency as regards creditors	**(30,147,909)**	**(33,030,242)**
Preference shares issued	-	-
Estimated deficiency as preference shareholders	**(30,147,909)**	**(33,030,242)**
Issue and called-up share capital	(16,000)	(16,000)
Estimated deficiency as regards members	**(30,163,909)**	**(33,046,242)**