

Company Registration No. 04710491

ProductionQuest Limited

**Annual report and financial statements
for the year ended 31 December 2018**



ProductionQuest Limited
Annual report and financial statements for the year ended 31 December 2018

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ProductionQuest Limited
Annual report and financial statements for the year ended 31 December 2018
Officers and professional advisers

Directors

B McLeish
A Makram-Ebeid

Company Secretary

L Dunlop

Registered Office

The Ark
201 Talgarth Road
Hammersmith
London
W6 8BJ

Bankers

Citi, London Branch
Citigroup Centre
Canada Square, London
E14 5LB

Independent Auditor

KPMG LLP
Statutory Auditor
37 Albyn Place
Aberdeen
AB10 1JB

ProductionQuest Limited

Annual report and financial statements for the year ended 31 December 2018

Strategic report

Principal activities

The principal activity of the company is the manufacture of specialised equipment and provision of services in connection with permanent downhole and reservoir data monitoring within the oil and gas industry.

Results and dividends

The profit after tax for the year was \$577,000 (2017: \$2,833,000 profit). There were no dividends proposed in either year.

Review of developments and future prospects

The directors consider the key performance indicators of the company to be turnover, gross profit and profit on ordinary activities before tax (see page 11). These are influenced by the level of oil and gas production activity which, in turn, is influenced by oil and gas prices. Future movements in oil and gas commodity prices will therefore impact the prospects for the company.

Due to the current climate in the energy sector, we do not expect to experience a significant change in revenue in 2019. Management continue to focus on identifying new opportunities whilst also focusing on cost control initiatives to improve profitability.

Key performance indicators

The following key performance indicators are used to monitor performance:

- Turnover \$70,748,000 (2017: \$64,307,000), being turnover as shown in the profit and loss account
- Profit before taxation of \$741,000 (2017: \$3,524,000 profit), as shown in the profit and loss account, and
- Gross profit margin of (0.3)% (2017: 5.5%), shown in the profit and loss account.

Principal risks and uncertainties

Information on the financial risks and uncertainties of the company's financial instruments is set out below:

Interest rate risk

The company is exposed to interest rate risk on its interest bearing assets and liabilities. The company manages the interest rate risk by placing its deposits on a short term basis with banks and the Group's Treasury department manages the interest rate risk on behalf of the company at a Group wide level.

Credit risk

The company's principal financial assets are bank balances, cash, short term investments, trade debtors and other debtors. Credit risk with respect to trade debtors is limited due to the company dealing mainly with major international oil companies, the use of letter of credit arrangements and the active monitoring of outstanding debtors. The credit risk on liquid funds is limited because the counterparties are banks with internationally assigned credit ratings. The company's terms of sale are governed by contracts with customers with terms and conditions appropriate for the industry.

Liquidity risk

Intercompany borrowings are utilised in order to ensure that there are sufficient funds for ongoing operations and future developments.

Price risk

Price risk arises from fluctuations in interest rates, foreign exchange rates, equity prices and oil prices. The company considers that volatility in oil prices is a regular part of its business and enters into third party foreign exchange contracts as appropriate.

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Annual report and financial statements for the year ended 31 December 2018
Strategic report (continued)

Economic risk

The United Kingdom European Union membership referendum that took place on 23 June 2016 resulted in an overall vote to leave the European Union. The United Kingdom subsequently left the European Union on 31 January 2020. In the short-term, the directors do not expect a significant effect of such on the company and its operations. However the longer term political and economic effects of this event will depend on the arrangements negotiated between the United Kingdom and European Union. The directors continue to monitor the situation closely and review potential risks to the company.

Going concern

The company made a profit of \$577,000 for the year and had net current assets of \$64,237,000 as at 31 December 2018.

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Further details regarding the adoption of the going concern basis can be found within note 1 to the financial statements.

Approved by the Board of Directors and signed on behalf of the Board.



B McLeish
Director
11 February 2020

ProductionQuest Limited

Annual report and financial statements for the year ended 31 December 2018

Directors' report

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

Principal activities

The principal activity of the company is the manufacture of specialised equipment and provision of services in connection with permanent downhole and reservoir data monitoring within the oil and gas industry.

Review of developments and future prospects

The review of developments and future prospects can be found in the strategic report on page 2 and form part of this report by cross-reference.

Principal risks and uncertainties

Information on principal risks and uncertainties can be found in the strategic report on page 2 and form part of this report by cross-reference.

Share-based payment transactions

Details of the ultimate parent company's long term incentive plans can be found in the 2018 Annual Report of Baker Hughes a GE company, copies of which can be obtained from <http://www.bakerhughes.com>.

Directors

The present membership of the Board is set out on page 1.

The directors of the company who held office during the year and to the date of this report were:

B McLeish (appointed 12 June 2018)

A Makram-Ebeid (appointed 26 March 2019)

M Rasmuson (resigned 12 June 2018)

O Onabolu (resigned 26 March 2019)

Directors' indemnities

The company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

Results and dividends

The profit after tax for the year was \$577,000 (2017: \$2,833,000 profit). There were no dividends paid or proposed in either year.

ProductionQuest Limited

Annual report and financial statements for the year ended 31 December 2018

Directors' report (continued)

Going concern

The company made a profit of \$577,000 for the year and had net current assets of \$64,237,000 as at 31 December 2018.

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Further details regarding the adoption of the going concern basis can be found within note 1 to the financial statements.

Employee involvement

The principal product lines and subsidiaries of the company provide information to employees, in the form of written newsletters, covering various aspects of the company's current and future activities along with certain financial information. In addition, there are regular meetings of elected employee representatives with senior management, at which full discussion on relevant points of interest takes place.

The company's employees participate in the Baker Hughes European Business Communications Forum (the "Forum"). The employees elect employee representatives to the Forum, which meets once a year to discuss European transnational matters affecting their interests. The Forum was set up in 1996 for the purposes of informing and consulting with Baker Hughes employees in the European Union and European Economic Area and promoting dialogue between management and those employees.

Employment of disabled persons

It is company policy to give full consideration to suitable applications for employment from disabled persons. Opportunities also exist for employees of the company who become disabled to continue in their employment or to be trained for other positions in the company. It is the policy of the company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Policy on the payment of creditors

The company does not follow a published code or standard on payment practice. The company's policy is to align terms of payment with each supplier in accordance with its requirements and financial procedures, to ensure that suppliers are aware of those terms, and to abide by them subject to the resolution of any disagreement regarding the supply. Trade creditor days of the company at 31 December 2018 were 74 days (2017: 52 days).

ProductionQuest Limited
Annual report and financial statements for the year ended 31 December 2018
Directors' report (continued)

Auditor

Each of the persons who is a director at the date of approval of this report confirms that:

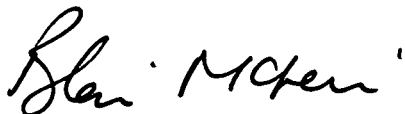
- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

A resolution to re-appoint KPMG LLP will be proposed at the forthcoming Annual General Meeting.

KPMG LLP have indicated their willingness to be re-appointed for another term and appropriate arrangements have been put in place for them to be deemed to be re-appointed in the absence of an Annual General Meeting.

Approved by the Board of Directors and signed on behalf of the Board.



B McLeish
Director
11 February 2020

ProductionQuest Limited

Directors' responsibilities statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

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

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

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

Independent auditor's report to the members of ProductionQuest Limited

Opinion

We have audited the financial statements of ProductionQuest Limited ("the company") for the year ended 31 December 2018 which comprise the Profit and Loss account, Balance sheet and Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

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

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

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

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model, including the impact of Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

Independent auditor's report to the members of ProductionQuest Limited (continued)

Strategic report and Directors' report

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

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

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

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 7, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

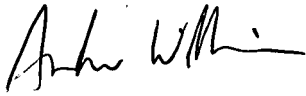
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit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

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

Independent auditor's report to the members of ProductionQuest Limited (continued)

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

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



Andrew Williamson (Senior Statutory Auditor)
for and on behalf of KPMG/LLP, Statutory Auditor
Chartered Accountants
37 Albyn Place
AB10 1JB
12 February 2020

ProductionQuest Limited
Profit and loss account
For the year ended 31 December 2018

	Note	Total 2018 \$'000	Total 2017 \$'000
Turnover	3	70,748	64,307
Cost of sales		(70,989)	(60,788)
Gross (loss)/profit		(241)	3,519
Administrative expenses		(1,914)	(1,472)
Total operating expense		(1,914)	(1,472)
Operating (loss)/profit	4	(2,155)	2,047
Loss on sale of tangible fixed assets	6	(100)	(3)
Interest receivable and similar income	7	1,121	1,485
Interest payable and similar expenses	8	-	(5)
Other income		1,875	-
Profit before taxation		741	3,524
Tax on profit	9	(164)	(691)
Profit for the financial year and total comprehensive income attributable to the shareholders of the company		<u>577</u>	<u>2,833</u>

All of the results for the current and prior year relate to continuing operations.

The company has no recognised gains and losses for the current and prior year other than as included in the results above. Accordingly no statement of comprehensive income is presented.

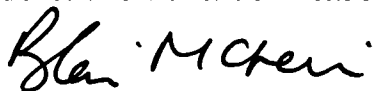
The notes on pages 14 to 28 form an integral part of these financial statements.

ProductionQuest Limited
Balance sheet
As at 31 December 2018

	Note	2018 \$'000	2017 \$'000
Fixed assets			
Tangible fixed assets	11	121	383
Current assets			
Stocks	12	8,543	5,465
Debtors			
- due within one year	13	130,125	127,832
- due after one year	14	280	119
Cash at bank and in hand		353	80
		<u>139,301</u>	<u>133,496</u>
Creditors: amounts falling due within one year	15	<u>(75,064)</u>	<u>(69,888)</u>
Net current assets		<u>64,237</u>	<u>63,608</u>
Total assets less current liabilities		<u>64,358</u>	<u>63,991</u>
Provisions for liabilities	16	<u>-</u>	<u>(210)</u>
Net assets		<u>64,358</u>	<u>63,781</u>
Capital and reserves			
Called-up share capital	17	-	-
Profit and loss account		64,355	63,778
Share-based payments reserve		3	3
Total shareholders' funds		<u>64,358</u>	<u>63,781</u>

The financial statements of ProductionQuest Limited, company number 04710491, were approved by the Board of Directors and authorised for issue on 11 February 2020.

Signed on behalf of the Board of Directors by:



B McLeish
 Director

The notes on pages 14 to 28 form an integral part of these financial statements.

ProductionQuest Limited
Statement of changes in equity
For the year ended 31 December 2018

	Called-up share capital (note 17) \$'000	Profit and loss account \$'000	Share- based payments reserve \$'000	Total \$'000
At 1 January 2017	-	60,945	2	60,947
Profit for the financial year	-	2,833	-	2,833
Capital contribution in respect of share-based payments (note 10)	-	-	1	1
Total comprehensive income	-	2,833	1	2,834
At 31 December 2017	-	63,778	3	63,781
Profit for the financial year	-	577	-	577
Total comprehensive income	-	577	-	577
At 31 December 2018	-	64,355	3	64,358

The notes on pages 14 to 28 form an integral part of these financial statements.

ProductionQuest Limited

Notes to the financial statements

For the year ended 31 December 2018

1. Accounting policies

The principal accounting policies adopted are described below. They have been applied consistently throughout the current and preceding year.

General information and basis of accounting

ProductionQuest Limited is a private limited company, limited by shares which is incorporated in England and registered in the United Kingdom. The address of the registered office is given on page 1. The financial statements are prepared under the historical cost convention and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The functional currency of the company is considered to be US dollars because that is the currency of the primary economic environment in which the company operates. All financial information presented in USD has been rounded to the nearest thousand.

The company meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements. The company is consolidated in the financial statements of its ultimate parent, General Electric Company, which may be obtained from the address in note 21. Exemptions have been taken in these separate company financial statements in relation to financial instruments, presentation of cash flow statement, disclosure of related party transactions and remuneration of key management personnel.

Going concern

The company's business activities, together with the factors likely to affect its future development, performance and position are set out in the review of developments and future prospects on pages 2 to 3. The financial position of the company is also described in the strategic report on page 2.

In addition the strategic report includes the company's financial risk management objectives and its exposures to credit risk, interest rate risk, price risk and liquidity risk. The directors believe that the company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

ProductionQuest Limited
Notes to the financial statements (continued)
For the year ended 31 December 2018

1. Accounting policies (continued)

Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation and any provision for impairment.

Depreciation is charged on a straight line basis allocating the cost less estimated residual values of the tangible fixed assets over their expected useful lives. Depreciation is not provided on freehold land.

Short leasehold land and buildings	20 to 25 years (land is not depreciated)
Operational equipment	2 to 7 years
Office equipment, fixtures and fittings	3 to 5 years

Borrowing costs incurred in the acquisition of tangible fixed assets are expensed to profit and loss.

Stock and work in progress

Stocks are stated at the lower of cost and estimated selling price less costs to sell, which is equivalent to the net realisable value. Cost includes materials, direct labour and an attributable proportion of manufacturing overheads based on normal levels of activity. Cost is calculated using the Periodic Unit Price (standard cost) method. Provision is made for obsolete, slow-moving or defective items where appropriate.

Trade and other debtors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors.

Foreign currency assets and liabilities

Transactions denominated in foreign currencies are translated into US dollars at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. The translation differences arising are recorded within the profit and loss account.

The assets and liabilities of the company's foreign operations are translated from their functional currencies into US dollars using the closing exchange rate. Income and expenses are translated using the average rate for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used.

Financial instruments

Financial assets and financial liabilities are recognised when the company becomes a party to the contractual provisions of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

(i) Financial assets and liabilities

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified at fair value through profit and loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financial transaction. If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial assets and liabilities are only offset in the balance sheet when, and only when there exists a legally enforceable right to set off the recognised amounts and the company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

ProductionQuest Limited
Notes to the financial statements (continued)
For the year ended 31 December 2018

1. Accounting policies (continued)

Financial instruments (continued)

(i) Financial assets and liabilities (continued)

Debt instruments which meet the following conditions are subsequently measured at amortised cost using the effective interest method:

- (a) The contractual return to the holder is (i) a fixed amount; (ii) a positive fixed rate or a positive variable rate; or (iii) a combination of a positive or a negative fixed rate and a positive variable rate.
- (b) The contract may provide for repayments of the principal or the return to the holder (but not both) to be linked to a single relevant observable index of general price inflation of the currency in which the debt instrument is denominated, provided such links are not leveraged.
- (c) The contract may provide for a determinable variation of the return to the holder during the life of the instrument, provided that (i) the new rate satisfies condition (a) and the variation is not contingent on future events other than (1) a change of a contractual variable rate; (2) to protect the holder against credit deterioration of the issuer; (3) changes in levies applied by a central bank or arising from changes in relevant taxation or law; or (ii) the new rate is a market rate of interest and satisfies condition (a).
- (d) There is no contractual provision that could, by its terms, result in the holder losing the principal amount or any interest attributable to the current period or prior periods.
- (e) Contractual provisions that permit the issuer to prepay a debt instrument or permit the holder to put it back to the issuer before maturity are not contingent on future events, other than to protect the holder against the credit deterioration of the issuer or a change in control of the issuer, or to protect the holder or issuer against changes in levies applied by a central bank or arising from changes in relevant taxation or law.
- (f) Contractual provisions may permit the extension of the term of the debt instrument, provided that the return to the holder and any other contractual provisions applicable during the extended term satisfy the conditions of paragraphs (a) to (c).

Debt instruments that are classified as payable or receivable within one year on initial recognition and which meet the above conditions are measured at the undiscounted amount of the cash or other consideration expected to be paid or received, net of impairment.

With the exception of some hedging instruments, other debt instruments not meeting these conditions are measured at fair value through profit and loss.

Commitments to make and receive loans which meet the conditions mentioned above are measured at cost (which may be nil) less impairment.

Financial assets are derecognised when and only when (a) the contractual rights to the cash flows from the financial asset expire or are settled, (b) the company transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or (c) the company, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

ProductionQuest Limited
Notes to the financial statements (continued)
For the year ended 31 December 2018

1. Accounting policies (continued)

Financial instruments (continued)

(ii) Equity instruments

Equity instruments issued by the company are recorded at the fair value of cash or other resources received or receivable, net of direct issue costs.

(iii) Preference shares

A preference share that provides for mandatory redemption by the issuer for a fixed or determinable amount at a fixed or determinable future date, or gives the holder the right to require the issuer to redeem the instrument at or after a particular date for a fixed or determinable amount, is a financial liability.

(iv) Fair value measurement

The best evidence of fair value is a quoted price for an identical asset in an active market. When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the market is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, the fair value is estimated using a valuation technique.

Trade and other creditors

Trade and other creditors are recognised initially at transaction price plus attributable transaction costs.

Taxation

Current tax including United Kingdom corporation tax and foreign tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying tax differences can be deducted.

Turnover

Turnover is measured at the fair value of the consideration received or receivable, net of discounts and value added tax.

Turnover is recognised when it is earned. Turnover is earned when the product is delivered and title passes, the service has been rendered or, in the case of rentals, passage of time or other contractual obligations have been met.

ProductionQuest Limited

Notes to the financial statements (continued)

For the year ended 31 December 2018

1. Accounting policies (continued)

Revenue recognition

Revenue from the provision of the consultancy services are derived from the contracts that are typically of a short duration. These contracts contain either lump sum provision or provisions for specific time, software and third party charges, which are billed in accordance with the terms of such contracts. Revenue is recognised to the extent that the company obtains the right to consideration in exchange for its performance.

Interest receivable and similar income

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the company and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Interest payable and similar expenses

Interest payable and similar expenses include interest payable, finance expenses on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the profit and loss account.

Employee benefits

The company operates a defined contribution pension scheme. The pension cost charge represents the contributions payable by the company under the rules of the scheme. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Leasing arrangements

All leases entered into by the company are operating leases and the annual rentals are charged to the profit and loss account on a straight line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term.

Share-based payments

The company's ultimate parent issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the company's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Fair value is measured by use of the Black-Scholes pricing model. The expected life used in the model has been adjusted based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Charges from the parent company in respect of the share-based payment scheme are offset against the share-based payment reserve.

The company also provides employees with the ability to purchase the ultimate parent company's ordinary shares at: (i) on 30 June of each year at a 15% discount of the fair market value of our common stock on 1 January or 30 June, whichever is lower, and (ii) on 31 December of each year at a 15% discount of fair market values of our common stock on 1 July or 31 December, whichever is lower. The company records an expense based on the fair value of the benefit derived by the employees.

ProductionQuest Limited
Notes to the financial statements (continued)
For the year ended 31 December 2018

1. Accounting policies (continued)

Provisions

A provision is recognised if, as a result of a past event, the company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

2. Critical accounting judgements and key sources of estimation uncertainty

In the application of the company's accounting policies, which are described in note 1, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affect both current and future periods.

Intercompany recoverability

In respect to intercompany receivables (as described in note 13), a review has been completed regarding the recoverability of the outstanding balances. Based on the details available, management consider there is little or no risk in terms of recoverability and conclude no bad debt provision is required.

Inventory reserve

Inventory is a significant component of current assets and is stated at the lower of cost or net realisable value. This requires us to recognise provisions and maintain reserves for excess, slow moving and obsolete inventory. To determine these reserve amounts, we regularly manage and review inventory quantities on hand and compare them to estimates of future product demand, market conditions, production requirements and technological developments. These estimates and forecasts inherently include uncertainties and require us to make judgements regarding potential future outcomes. As a result of this assessment, an impairment loss of \$nil (2017: \$nil) has been recognised in the year.

3. Turnover

The directors consider the company to have one class of business being the manufacture of specialised equipment and provision of services in connection with permanent downhole and reservoir data monitoring within the oil and gas industry.

The directors consider that an analysis by geographical market would be seriously prejudicial to the interests of the company and therefore no additional segmental information has been disclosed.

ProductionQuest Limited
Notes to the financial statements (continued)
For the year ended 31 December 2018

4. Operating (loss)/profit

Operating (loss)/profit is stated after charging/(crediting):

	2018	2017
	\$'000	\$'000
Depreciation of tangible fixed assets (note 11)	135	122
Foreign exchange loss/(gain)	81	(337)
Operating lease rentals:		
Hire of plant and machinery	1	1
Property	107	142
	<u>107</u>	<u>142</u>

Fees payable to the company's auditor and its associates of \$18,547 for the audit of the company's annual financial statements in 2018 (2017: \$17,275).

5. Information regarding directors and employees

Directors' emoluments:

The directors who served during the current and prior year were employees of another group company. The directors do not consider it as qualifying services during the year to estimate the proportion of their remuneration that relates to their services as directors of the company in either year.

Employee costs during the year:

	2018	2017
	\$'000	\$'000
Wages and salaries	921	777
Social security costs	87	75
Other pension costs	54	61
	<u>1,062</u>	<u>913</u>

Average monthly number of persons employed:

	2018	2017
	No.	No.
Manufacturing	11	15
Management and administration	1	1
	<u>12</u>	<u>16</u>

ProductionQuest Limited
Notes to the financial statements (continued)
For the year ended 31 December 2018

6. Loss on sale of tangible fixed assets

	2018 \$'000	2017 \$'000
Loss on sale of tangible fixed assets	(100)	(3)

7. Interest receivable and similar income

	2018 \$'000	2017 \$'000
Interest receivable from group undertakings	924	1,485
Release of provision (note 16)	197	-
	<u>1,121</u>	<u>1,485</u>

8. Interest payable and similar expenses

	2018 \$'000	2017 \$'000
Accretion charge	-	5

ProductionQuest Limited
Notes to the financial statements (continued)
For the year ended 31 December 2018

9. Tax on profit

The tax charge comprises:

	2018	2017
	\$'000	\$'000
Current tax on profit		
Adjustment in respect of prior years		
- UK corporation tax	325	-
Total current tax	<u>325</u>	<u>-</u>
Deferred tax		
Origination and reversal of timing differences:		
- relating to prior year adjustments	(36)	159
- origination of deferred tax liability	(125)	532
Total deferred tax	<u>(161)</u>	<u>691</u>
Total tax on profit	<u><u>164</u></u>	<u><u>691</u></u>

The standard rate of tax for the year, based on the average UK standard rate of corporation tax, is 19% (2017: 19.25%). The actual current tax charge for the current year and charge for the preceding year differs for the reasons set out in the following reconciliation.

The differences between the total tax charge shown above and the amount calculated by applying the average standard rate of UK corporation tax to the profit before tax are as follows:

	2018	2017
	\$'000	\$'000
Profit before tax	<u>741</u>	<u>3,524</u>
Tax on profit at average UK corporation tax rate of 19% (2017: 19.25%)	141	678
<i>Effects of:</i>		
Adjustment in respect of prior years	288	159
Expenses not deductible for tax purposes	2	1
Other timing differences	(282)	19
Change in tax rate	15	(70)
Excess of depreciation in advance of capital allowance	-	(96)
Total tax charge for the year	<u><u>164</u></u>	<u><u>691</u></u>

ProductionQuest Limited
Notes to the financial statements (continued)
For the year ended 31 December 2018

9. Tax on profit/(loss) (continued)

Deferred taxation asset

Deferred tax asset of \$280,000 (2017: \$119,000) has been recognised in relation to depreciation in excess of capital allowances and in respect of tax losses carried forward. In the opinion of the directors it is more likely than not that the amounts will be recovered.

Deferred taxation provided in the financial statements is as follows:

	2018	2017
	\$'000	\$'000
Depreciation in excess of capital allowances	91	119
Short-term timing differences	4	-
Tax losses available	185	-
	<u>280</u>	<u>119</u>

A reduction in the corporation tax rate was announced in Finance (No 2) Act 2015, which was substantively enacted on 18 November 2015. As a consequence, the tax rate reduced to 19% for the years starting 1 April 2017, 2018 and 2019. Finance Act 2016, which was substantively enacted on 15 September 2016, included a further reduction in the tax rate to 17% with effect from 1 April 2020.

Deferred tax as at 31 December 2018 has been calculated at 17%.

ProductionQuest Limited
Notes to the financial statements (continued)
For the year ended 31 December 2018

10. Share-based payments

General Electric "GE", the ultimate parent of the company, operated employee share schemes including Stock options, Restricted Stock Units ("RSU") and an Employee Stock Purchase Plan ("ESPP").

The company recognised an expense of \$nil (2017: \$1,000) relating to equity-settled share-based payment transactions in the year.

Stock options

Key employees are granted stock options under the Baker Hughes, a GE company Long-Term Incentive Plan. Options are exercisable in three equal annual instalments, beginning a year from the date of grant and generally expire ten years from date of grant. The exercise price is the fair market value of the stock at the date of grant.

The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes option pricing model. The expected life used in the model has been adjusted based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

There were no stock option activity in 2018 (2017: \$nil).

Restricted stock units

In addition to stock options, key employees may be granted restricted stock units, where each unit represents the right to receive at the end of a stipulated period, generally over three to five years, one unrestricted share of stock with no exercise price. The fair value of restricted stock units is based on the market price of Baker Hughes, a GE company common stock on the date of the grant.

Employee stock purchase plan

Until July 2017, the Employee Stock Purchase Plan ("ESPP") provided for eligible employees to purchase shares on an after-tax basis: (i) on June 30 of each year at a 15% discount of the fair market value of Baker Hughes, a GE company common stock on January 1 or June 30, whichever was lower, and (ii) on December 31 of each year at a 15% discount of fair market value of Baker Hughes, a GE company common stock on July 1 or December 31, whichever was lower. An employee may not purchase more than \$5,000 in either of the six-month measurement periods described above or \$10,000 annually. The fair value was estimated using the Black-Scholes model. The expected life used in the model has been adjusted based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Charges from the parent company in respect of the share-based payment scheme are offset against the share-based payment reserve.

Total share-based payment compensation expense

	2018	2017
	\$'000	\$'000
Employee stock purchase plan	-	1
	<u> </u>	<u> </u>

ProductionQuest Limited
Notes to the financial statements (continued)
For the year ended 31 December 2018

11. Tangible fixed assets

	Short leasehold land and buildings \$'000	Operational equipment \$'000	Office equipment, fixtures and fittings \$'000	Total \$'000
Cost				
At 1 January 2018	517	919	210	1,646
Additions	-	-	-	-
Disposals	(326)	-	-	(326)
Write off	-	(368)	-	(368)
At 31 December 2018	<u>191</u>	<u>551</u>	<u>210</u>	<u>952</u>
Depreciation				
At 1 January 2018	190	863	210	1,263
Charge for the year	119	16	-	135
Disposals	(207)	-	-	(207)
Write off	-	(360)	-	(360)
At 31 December 2018	<u>102</u>	<u>519</u>	<u>210</u>	<u>831</u>
Net book value				
At 31 December 2018	<u>89</u>	<u>32</u>	<u>-</u>	<u>121</u>
At 31 December 2017	<u>327</u>	<u>56</u>	<u>-</u>	<u>383</u>

12. Stocks

	2018 \$'000	2017 \$'000
Raw materials and consumables	15	200
Work-in-progress	662	2,827
Finished goods and goods for resale	7,866	2,438
	<u>8,543</u>	<u>5,465</u>

Cost of sales in the profit and loss account includes inventories expensed amounting to \$1,488,000 (2017: \$2,361,000).

ProductionQuest Limited
Notes to the financial statements (continued)
For the year ended 31 December 2018

13. Debtors

Amounts falling due within one year	2018 \$'000	2017 \$'000
Amounts owed by group undertakings	129,969	127,667
Prepayments and accrued income	18	58
Other debtors	5	39
VAT	133	68
	<u>130,125</u>	<u>127,832</u>

Amounts due from Baker Hughes Limited are:

1. USD intercompany loan receivable of \$50,547,000 repayable on demand, bearing interest at the three month London Interbank Offered Rate for USD.
2. GBP intercompany loan receivable of \$5,955,000 repayable on demand, bearing interest at the three month London Interbank Offered Rate for GBP.

All other amounts due from group undertakings are interest free and repayable on demand.

14. Debtors

Amounts falling due after more than one year	2018 \$'000	2017 \$'000
Deferred tax asset (note 9)	<u>280</u>	<u>119</u>

15. Creditors

Amounts falling due within one year	2018 \$'000	2017 \$'000
Trade creditors	15,443	8,566
Amounts owed to group undertakings	59,485	60,534
Accruals and deferred income	110	771
Other creditors	17	-
Other taxation and social security	9	17
	<u>75,064</u>	<u>69,888</u>

Amounts due to group undertakings are interest free and payable on demand.

ProductionQuest Limited
Notes to the financial statements (continued)
For the year ended 31 December 2018

16. Provisions for liabilities

	Dilapidation provision \$'000
At 1 January 2018	210
Release of provision (note 7)	(197)
Others	(13)
	<hr/>
At 31 December 2018	<u>-</u>

A dilapidation provision is recognised when there is an expectation of future obligations relating to the maintenance of leasehold properties arising from events such as lease renewals or terminations. Key uncertainties are the estimates of amounts due. The provision was released in 2018.

17. Called-up share capital and reserves

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company.

Called-up, allotted and fully paid	2018		2017	
	Number of shares	\$'000	Number of shares	\$'000
£1 ordinary shares	100	-	100	-
		<hr/> <hr/>		<hr/> <hr/>

The company's other reserves comprise the profit and loss reserve representing cumulative profits. The share-based payment reserve is distributable and should be considered in conjunction with the profit and loss account.

18. Pension schemes

ProductionQuest Limited contributes to defined contribution pension schemes operated by the intermediate parent company Baker Hughes Limited. The assets of these schemes are held in separate trustee administered funds.

Contributions in the period amounted to \$54,000 (2017: \$61,000) and contributions of \$nil (2017: \$nil) were outstanding at the year end.

ProductionQuest Limited
Notes to the financial statements (continued)
For the year ended 31 December 2018

19. Operating lease commitments

Total future minimum lease payments under non-cancellable operating leases are as follows:

	2018	2017
	Land and	Land and
	buildings	buildings
	\$'000	\$'000
Within one year	-	157
Within two to five years	-	209
	<hr/>	<hr/>
	-	366
	<hr/> <hr/>	<hr/> <hr/>

20. Related party transactions

The company has taken advantage of FRS 102.33.1A 'Related Party Disclosures' and hence has not disclosed details of transactions with other group companies in which Baker Hughes, a GE company and General Electric Company ultimately own 100% of the share capital.

21. Immediate and ultimate parent company and related undertakings

The company's immediate parent and controlling party is Baker Hughes EHO Limited, a company incorporated in Bermuda. Copies of the financial statements of the immediate parent can be requested from the Company Secretary at The Ark, 201 Talgarth Road, Hammersmith, London, W6 8BJ.

The company's ultimate parent company is Baker Hughes Company, incorporated in Delaware. Related companies in these financial statements refer to members of the ultimate parent company's group of companies.

As of 16 September 2019, General Electric Company (GE) ceased to hold more than 50% of the voting power of all classes of the outstanding voting stock of Baker Hughes Company. Subsequently, on October 17, 2019, Baker Hughes Company changed its name from Baker Hughes, a GE company to Baker Hughes Company. The financial information of the Company has been recorded in the consolidated financial statements of Baker Hughes Company. The financial statements of Baker Hughes Company can be found on the website <http://www.bakerhughes.com> under Investor.

The company has no other related undertakings requiring disclosure.