Doosan Babcock Limited

Annual report and financial statements for the year ended 31 December 2016

Reg no. 00839354

Contents

Officers and professional advisers

Directors

Andrew Adam Colquhoun
Suk Joo Kang
Byoung Man Kim
Jin Won Mok

Company secretary

Mark Sunley

Registered number

00839354

Registered office

Doosan House
Crawley Business Quarter
Manor Royal
Crawley
West Sussex
RH10 9AD

Independent auditors

Deloitte LLP
Crawley
United Kingdom

Strategic report
For the year ended 31 December 2016

The Directors present their strategic report on Doosan Babcock Limited (the 'Company') for the year ended 31 December 2016.

Business Review

Trading performance
The energy industry is experiencing a period of rapid market evolution, with the movement away from coal to other sources of energy. A combination of this evolution and investment uncertainty following the United Kingdom's vote in June 2016 to leave the European Union ("Brexit"), has led to 2016 being a challenging year for the Company. This is reflected in the trading performance of the Company which secured order intake of £414,099,000 down 18.4% on 2015 (£507,181,000). Revenues for the year were £389,037,000 compared to £457,496,000 in 2015, caused by the timing of project awards in 2016 following volume peaks on projects in 2015.

Operating loss was £33,729,000 compared to an operating loss of £4,358,000 in 2015. The operating loss includes the recognition of restructuring costs totalling £9,134,000 in 2016 (2015: £5,690,000) as the Company undertakes a process to adapt to the evolving energy industry and ensure it is well placed to capitalise on future opportunities. After an impairment charge of £314,000 (2015: £414,000), exchange gains of £5,710,000 (2015: exchange losses £8,524,000), other net finance income of £5,647,000 (2015: £7,608,000) and income tax credit of £3,659,000 (2015: £1,926,000 expense) the loss after tax was £19,395,000 compared to £7,615,000 in 2015.

Year end position
The Company's year-end cash position has decreased with a balance at 31 December 2016 of £4,026,000 (2015: £25,865,000) and net assets of £397,491,000 (2015: £456,184,000)

Financial key performance indicators

The Directors consider that the following key performance indicators are the most effective measures of the performance of the business. These measures are reviewed each month by senior management.

Key financial performance indicators and 2016 performance:

Key performance indicator	2016	2015
Order intake (£000)	414,099	507,181
Revenue (£000)	389,037	457,496
Operating (loss)/profit (£000)	(33,729)	(4,358)

Non-financial key performance indicators

The Directors consider that the following key performance indicators are the most effective measures of achievement of the Company's objective to provide the highest standards of Quality, Health, Safety and Environmental management.

These measures are reviewed each month by senior management and highlight excellent performance and identify any areas for improvement. The objectives are supported by initiatives developed to drive forward continuous improvements to procedures and processes.

Key non-financial performance indicators and 2016 performance:

Non-financial key performance indicator	2016	2015
Reportable lost time accidents	1	3
Accident injury frequency rate (per 100,000 hours worked)	0.01	0.02
Recordable injury frequency rate (per 200,000 hours worked)	0.29	0.36
Health and safety regulatory breaches	None	None
Environmental issues and compliance with regulator licence	None	None
'Achilles' score – independent assessment of supplier credentials for quality, heath, safety and environment	100%	98%

Likely future developments

The priorities for the business going forward will be to implement the restructuring programme to achieve a right-sized overhead base. The business will continue its policy of growth and diversification by looking to capitalise on opportunities to grow internationally and to benefit from opportunities for growth in providing high value solutions to customers. This will help achieve a balanced portfolio aligned to new market dynamics.

There are also increasing opportunities to collaborate further with our parent company (Doosan Heavy Industries & Construction Co Ltd) to increase our access to these and other global markets. The business also sees opportunities in the green sector and is continuing its investment in the development of new technologies in response to the evolving global energy landscape.

By the end of May 2017 the Company had won £95m of orders, bringing the order book and hence future contracted revenue for the Company to £422m. The full year order intake is expected to be £381m.

Principal risks and uncertainties

Managing risk is seen as a key attribute of the Company, with a focus on quality in everything we do. The backbone of our business is our people who we make significant efforts to train and develop through our many accredited programmes to ensure that they are amongst the best in their respective fields.

The major uncertainties in terms of trading in the current market are the fluctuations in raw material and supplier costs, especially on key contracts. Reflecting this situation where a position is particularly volatile, the Company will seek to agree appropriate escalation formulae or cost plus agreements with customers to help mitigate this. The other significant trading uncertainty is the timing of major new build projects. Particularly in western markets we are currently seeing delays and uncertainty over when projects due to the continuing economic uncertainties and environmental issues, and this has been increased further by the Brexit vote in June 2016. The Company addresses this by having a portfolio of projects being bid for at any time; and seeking both product and geographical expansion to mitigate the impact of investment decisions and changes within specific countries and sectors. The directors have considered the potential future impact of Brexit in their management of the financial and commercial risk of the Company and have managed their risk accordingly.

In respect of foreign currencies, the Company's policy is to hedge significant exposure to movements in exchange rates primarily through the use of the forward market. These hedges are made primarily to cover foreign currency cash flows on projects. No trading or speculation in financial instruments is undertaken.

Details of the Company's management of credit risk and liquidity risk can be found in note 12.4 of the financial statements. With regard to the recognition of the pension scheme position, the Company is exposed to the performance of the assets invested in equities and bonds, movements in bond rates and other actuarial assumptions. These can vary significantly over time. To manage these risks the Company has taken a number of actions over the previous years including increasing contributions and closing the defined benefit scheme to new entrants and to future accruals. There is an investment sub-committee jointly appointed by the Company and Pension Trustees in addition to the financial advisers appointed by the Trustees who aim to optimise the performance of the scheme's assets.

The major uncertainty relating to ongoing contracts is the difficulty in assessing the final financial outcome and stage of completion of contracts recognised on a long term contract accounting basis. The Company seeks to mitigate this uncertainty by regularly assessing the forecasted position on a contract by contract basis to confirm that they still reflect a best estimate of expected costs to complete.

Approved by the board of directors and signed on behalf of the directors on 27 June 2017.

Suk Joo Kang
Director
Registered Office:-
Doosan House
Crawley Business Quarter
Manor Royal
Crawley
West Sussex RH10 9AD
Registered in England No. 00839354

Directors' report
For the year ended 31 December 2016

The Directors present the annual report on the affairs of the Company, together with the audited financial statements and auditor's report, for the year ended 31 December 2016.

Principal activities

The principal activities of the Company are associated with providing high value-added energy services, innovative technology-led business solutions and new build power plants to the power generation industry and associated markets.

Results and dividends

The net loss after taxation was £19,395,000 (2015: £7,615,000 loss). For the year ended 31 December 2016 no dividends were declared.

The Company's net assets at 31 December 2016 are £397,491,000 (2015: £456,184,000).

Directors

The following persons served as directors during the year and up to the date of signing the financial statements:

Andrew Hunt	(resigned 2 February 2017)
Andrew Adam Colquhoun	(appointed 2 February 2017)
Suk Joo Kang	(appointed 6 February 2017)
Jun Ho Hyun	(resigned 1 December 2016)
Kwang Seob Jung	(resigned 6 February 2017)
Byoung Man Kim	(appointed 23 January 2015)
Myong Dong Ryu	(resigned 1 October 2016)
Jin Won Mok	(appointed 5 January 2017)

Research and development

The Company is engaged in high technology markets and recognises the need for the continued improvement and development of its products relative to market requirements.

Total expenditure for research and development for the year amounted to £12,084,000 (2015: £17,205,000) of which £1,448,000 (2015: £2,102,000) was not funded by a third party and £10,636,000 (2015: £15,103,000) was funded by grants.

£1,698,000 (2015: £3,304,000) of development expenditure was capitalised during the year.

Disabled employees

The policy and practice of the Company is to seek to encourage and assist the employment of disabled persons, subject to their ability to perform the duties of the job without exposing themselves or other employees to abnormal risk. The training, career development and promotion of disabled persons is similarly encouraged and assisted. Arrangements are made wherever possible for retraining employees who become disabled to enable them to perform work identified as appropriate to their aptitudes and abilities.

Employee involvement

The Company's employment policies are designed to meet local conditions and requirements. The Board acknowledges the need to encourage employee involvement in the improvement of the Company's performance by supplying information on matters of concern through regular consultation with employees and by participation of employees in joint problem solving activities.

Information is provided by various means including briefing groups, audio/visual presentations, the Company's intranet and other publications.

In the Company, joint consultative committees are in operation, which provide an effective means of consultation with employees on a wide range of issues.

Directors' Indemnities

The Company has made no qualifying third party indemnity provisions for the benefit of its directors.

Directors' report (continued)
For the year ended 31 December 2016

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 Business Review on page 2. The financial position of the Company and liquidity position are described in the Strategic Report on page 2. The principal risks and uncertainties faced by the Company are set out in the Strategic Report on page 3. In addition, note 12 to the financial statements include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The Company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Company will meet the scheduled repayments and will be able to operate within the limits of applicable banking covenants to be complied with for a period of at least 12 months from the date of signing these financial statements.

The Directors have an expectation that based on the current funding position, size of the current order book and the business projections, that the Company has adequate resources to continue in operational existence for the foreseeable future despite the current uncertain economic climate. Subsequent to the restructuring undertaken in 2016 the Directors believe the business to be in a position to return to profitability and cash generation in 2017. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Disclosure of information to the auditor

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

Auditor

In accordance with Section 487 of the Companies Act 2006, a resolution for the reappointment of Deloitte LLP as auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

Approved by the board of directors and signed on behalf of the directors on 27 June 2017.

Kang, [signature]

Suk Joo Kang
Director
Registered Office:-
Doosan House
Crawley Business Quarter
Manor Royal
Crawley
West Sussex RH10 9AD
Registered in England No. 00839354

Directors' responsibilities statement

For the year ended 31 December 2016

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

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 also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DOOSAN BABCOCK LIMITED

We have audited the financial statements of Doosan Babcock Limited for the year ended 31 December 2016 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Cash Flow Statement, the Statement of Changes in Equity and the related notes 1 to 27. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

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

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us 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.

Robert Knight, FCA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Statutory auditor
Crawley, United Kingdom
27 June 2017

Income statement

For the year ended 31 December 2016

	Note	2016 £000	2015 £000
Revenue	4	389,037	457,496
Cost of sales		(371,608)	(423,660)
Gross profit		17,429	33,836
Administrative expenses		(51,158)	(38,194)
Operating loss	5	(33,729)	(4,358)
Loss on disposal of property, plant and equipment		(7)	(1)
Other non-operating expenses		(361)	-
Impairment of investments	11	(314)	(414)
Net finance income / (cost)	7	11,357	(916)
Loss before tax		(23,054)	(5,689)
Taxation	8.2	3,659	(1,926)
Loss for the year		(19,395)	(7,615)

The notes on pages 12 – 44 form part of the financial statements.

All revenue and losses arose from continuing operations.

Statement of other comprehensive income

For the year ended 31 December 2016

	Note	2016 £000	2015 £000
Loss for the year		(19,395)	(7,615)
Items that will not be reclassified subsequently to profit or loss:			
Actuarial movement in retirement obligations	6.3/ 8.3	(46,559)	12,303
Income tax relating to items not reclassified to the income statement	6.3/ 8.3	7,261	(3,692)
		(39,298)	8,611
Other comprehensive (expense) / income for the year net of tax		(39,298)	8,611
Total comprehensive (expense) / income for the year		(58,693)	996

Statement of financial position

As at 31 December 2016

	Note	2016 £000	2015 £000
Non-current assets			
Intangible assets – goodwill	9	595	595
– other	9	18,423	21,779
Property, plant and equipment	10	8,885	10,423
Investments in subsidiaries	11	1,060	1,385
Deferred tax assets	17	30,527	19,859
Derivative financial instruments	12.2	224	-
		59,714	54,041
Current assets			
Inventories	13	1,371	2,831
Trade and other receivables	14	559,907	591,590
Amounts due from customers for contract work	24	49,032	50,114
Derivative financial instruments	12.2	425	29
Cash and cash equivalents		4,026	25,865
		614,761	670,429
Total assets		674,475	724,470
Current liabilities			
Trade and other payables	15	(132,900)	(167,829)
Amounts due to customers for contract work	24	(21,339)	(26,836)
Derivative financial instruments	12.2	(150)	(1,626)
Provisions	16	(8,834)	(4,200)
Current tax liabilities		(2,033)	(2,987)
		(165,256)	(203,478)
Net current assets		449,505	466,951
Non-current liabilities			
Derivative financial instruments	12.2	(65)	(194)
Provisions	16	(8,736)	(4,476)
Retirement benefit obligations	6.3	(102,927)	(60,138)
		(111,728)	(64,808)
Total liabilities		(276,984)	(268,286)
Net assets		397,491	456,184
Equity			
Called up share capital	18	261,957	261,957
Other reserves		973	973
Retained earnings	19	134,561	193,254
Total equity		397,491	456,184

The notes on pages 12 – 44 form part of the financial statements.

The financial statements of Doosan Babcock Limited, (registration number 00839354) were approved and authorised for issue by the Board of Directors on 27 June 2017.

Signed on behalf of the Board of Directors.

Suk Joo Kang
Director

Statement of changes in equity

For the year ended 31 December 2016

	Called up share capital £000	Revaluation reserve £000	Retained earnings £000	Total £000
At 1 January 2015	261,957	973	192,258	455,188
Loss for the year	-	-	(7,615)	(7,615)
Other comprehensive income for the year	-	-	8,611	8,611
Total comprehensive income for the year	-	-	996	996
At 1 January 2016	261,957	973	193,254	456,184
Loss for the year	-	-	(19,395)	(19,395)
Other comprehensive expense for the year	-	-	(39,298)	(39,298)
Total comprehensive expense for the year	-	-	(58,693)	(58,693)
At 31 December 2016	261,957	973	134,561	397,491

Cash flow statement

For the year ended 31 December 2016

	Note	2016 £000	2015 £000
Cash flow used in operations	20	(31,921)	(20,471)
Income tax paid		(703)	(384)
Net cash used in operations		(32,624)	(20,855)
Cash flows from investing activities			
Purchase of property, plant and equipment		(1,355)	(2,083)
Purchase of intangible assets		(1,773)	(3,771)
Disposal of property, plant and equipment		-	-
Loans to parent company		(4,267)	-
Repayment from parent company		67,000	-
Investment in subsidiaries		-	(799)
Net cash received from / (used in) investing activities		59,605	(6,653)
Cash flows from financing activities			
Interest paid		(3,956)	(5,081)
Bank loans granted		85,000	30,000
Loan repaid by parent company		(46,022)	140,000
Repayment of bank loans		(85,000)	(137,343)
Maturity of foreign exchange hedges		1,174	(11,565)
Net cash generated from financing activities		(48,804)	16,011
Net decrease in cash and cash equivalents		(21,823)	(11,497)
Effects of exchange rate changes		(16)	(28)
Cash and cash equivalents at the beginning of the year		25,865	37,390
Cash and cash equivalents at the end of the year		4,026	25,865

Notes to the financial statements

For the year ended 31 December 2016

1. General information

Doosan Babcock Limited is a Company incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on page 1. These financial statements are presented in Pounds Sterling because that is the currency of the primary economic environment in which the Company operates.

2. Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and the preceding year, are set out below.

2.1. Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments and property. Historical cost is generally based on the fair value of the consideration given in exchange for the assets. The principal accounting policies adopted are set out below.

The Directors are of the opinion that the consolidated financial statements of Doosan Power Systems S.A. are equivalent to financial statements drawn up in accordance with relevant EU directives and therefore entitle the Company not to produce consolidated financial statements.

2.2. Going concern

The Company's business activities are associated with providing high value-added energy services, innovative technology-led business solutions and new build power plant to the power generation industry and associated markets.

The energy industry is experiencing a period of rapid market evolution, with the movement away from coal to other sources of energy. A combination of this evolution and investment uncertainty following the United Kingdom's vote in June 2016 to leave the European Union ("Brexit"), has led to 2016 being a challenging year for the Company. This is reflected in the trading performance of the Company which secured order intake of £414,099,000 down 18.4% on 2015 (£507,181,000). Revenues for the year were £389,037,000 compared to £457,496,000 in 2015, caused by the timing of project awards in 2016 following volume peaks on projects in 2015.

Operating loss was £33,729,000 compared to an operating loss of £4,358,000 in 2015. The operating loss includes the recognition of restructuring costs totalling £9,134,000 in 2016 (2015: £5,690,000) as the Company undertakes a process to adapt to the evolving energy industry and ensure it is well placed to capitalise on future opportunities. After an impairment charge of £314,000 (2015: £414,000), exchange gains of £5,710,000 (2015: exchange losses £8,524,000), other net finance income of £5,647,000 (2015: £7,608,000) and income tax credit of £3,659,000 (2015: £1,926,000 expense) the loss after tax was £19,395,000 compared to £7,615,000 in 2015.

The Company's year-end cash position has decreased with a balance at 31 December 2016 of £4,026,000 (2015: £25,865,000) and net assets of £397,491,000 (2015: £456,184,000)

Managing risk is seen as a key attribute of the Company, with a focus on quality in everything we do. The backbone of our business is our people who we make significant efforts to train and develop through our many accredited programmes to ensure that they are amongst the best in their respective fields.

The major uncertainties in terms of trading in the current market are the fluctuations in raw material and supplier costs, especially on key contracts. Reflecting this situation where a position is particularly volatile, the Company will seek to agree appropriate escalation formulae or cost plus agreements with customers to help mitigate this. The other significant trading uncertainty is the timing of major new build projects. Particularly in western markets we are currently seeing delays over when projects will be released due to investment and environmental issues. The Company addresses this by having a portfolio of large projects being bid at any time; additionally we are protected by the balance of our business with both service and projects workload.

In respect of foreign currencies, the Company's policy is to hedge all significant exposure to movements in exchange rates primarily through the use of the forward market. No trading or speculation in financial instruments is undertaken.

With regard to the recognition of the pension scheme position, the Company is exposed to the performance of the assets invested in equities and bonds as well as the impact on liabilities of movements in bond rates and other actuarial assumptions which can vary significantly over time. To tackle these risks the Company has taken a number of actions over the previous years including increasing contributions and closing the defined benefit scheme to new entrants and to future accruals. There is an investment sub-committee jointly appointed by the Company and Pension Trustees in addition to the financial advisers appointed by the Trustees who aim to optimise the performance of the scheme's assets.

In addition, note 12 to the financial statements include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

Notes to the financial statements (continued)
For the year ended 31 December 2016

2. Accounting policies (continued)
2.2. Going concern (continued)

The Company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Company will meet the scheduled repayments and will be able to operate within the limits of the banking covenants for a period of at least 12 months from the date of approval of these financial statements.

The Directors have a strong expectation based on the strong cash position, size of the current order book and the business projections that the Company and the Company have adequate resources to continue in operational existence for the foreseeable future. The current year has suffered additional losses on certain large contracts which have made this a difficult year. They are not expected to recur in future years. Subsequent to the restructuring undertaken in 2016 the Directors believe the business to be in a position to return to profitability and cash generation in 2017. An assessment of future performance has been made based on the five year plan and applying sensitivity analysis reducing turnover by up to 15%. This still shows a positive cash flow every year over the next 5 years. Thus the Directors continue to adopt the going concern basis of accounting in preparing the annual financial statements.

2.3. Investments in subsidiaries, joint ventures and associates

Investments are stated at cost less any provisions for impairment. Investments are reviewed at each balance sheet date to determine whether there is an indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the Income Statement.

On disposal of investments, the difference between disposal proceeds and the carrying amount of investment are recognised in the income statement.

2.4. Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired. Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the entity over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of the impairment review, goodwill is allocated to each of the Company's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

2.5. Intangible assets

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the Company's product development is recognised only if all of the following conditions are met:

- an asset is created that can be identified (such as technology which can be used in a product);
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

Internally-generated intangible assets are amortised on a straight-line basis over their useful lives. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Software is treated as an intangible asset.

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses.

The expected depreciation rates are:

Goodwill	nil (note 2.4)
Deferred development expenditure	20% to 50%
Software	16% to 33⅓%

Amortisation of intangible assets is charged to operating profit in the income statement.

2. Accounting policies (continued)
2.6. Property, plant and equipment

Freehold properties, plant, machinery and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Properties in the course of construction for production, supply or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, any borrowing costs associated with financing the assets, if applicable. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

The gain or loss arising on the disposal or scrappage of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

The Company chooses to perform a regular independent review every 2 years of the value of land assets in order to assess whether a revaluation is required. This ensures that the carrying amount of these assets does not differ materially from their fair value.

Depreciation is charged on cost on a straight-line basis at rates appropriate to the expected useful lives of the assets concerned. Freehold land and assets in the course of construction are not depreciated.

The expected depreciation rates are:

Land and buildings	
Freehold land	Not depreciated
Freehold and leasehold buildings	2% to 12½%
Plant and equipment	
Heavy production	3% to 10%
Other plant and machinery	3% to 33⅓%
Motor vehicles	12½% to 25%
Office equipment and furniture	8% to 33⅓%
Computers	20% to 33⅓%

2.7. Government grants

Government grants are not recognised until there is reasonable assurance that the Company will comply with the conditions attached to them and that the grants will be received.

Capital-based government grants are credited to the assets to which they relate, with the net amount then being released to the income statement as depreciation.

Grants and funding of a revenue nature are netted against the expenses to which they relate. Recognition of the funding income is realised at the same rate as expenditure with any advance receipts of such funding being kept as deferred income. If the development to which this relates meets the criteria for capitalisation then the net cost is capitalised.

2.8. Inventory

Inventories are stated at the lower of cost and net realisable value. An inventory provision is booked to state inventory at net realisable value where the realisable value from sale of the inventory is estimated to be lower than the inventory carrying value.

Costs comprise direct materials, and in the case of work-in-progress, direct labour and overheads, including depreciation, but excludes selling and administration costs.

Raw materials and consumables are stated using the weighted average cost method.

2.9. Leasing and hire purchase commitments

Hire charges paid under operating leases are charged to the income statement on a straight-line basis over the term of the lease.

2.10. Provisions

A provision is recognised in the statement of financial position if, as a result of a past event, there is a present legal or constructive obligation that can be measured reliably and it is probable that an outflow of economic benefits will be required to settle the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. Provisions for the expected cost of warranty obligations under local sale of goods legislation are recognised at the date of sale of the relevant products, at the Directors' best estimate of the expenditure required to settle the Company's obligation.

Notes to the financial statements (continued)

For the year ended 31 December 2016

2. Accounting policies (continued)

2.10. Provisions (continued)

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Company has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from it.

2.11. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, Value Added Tax ('VAT') and other sales-related taxes.

2.11.a. Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date. This is normally measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable. Claims for extensions of time are recognised only to the extent that they are in advanced stages of negotiation, are not subject to on-going formal dispute procedures and their receipt is considered probable

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred where it is probable they will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised in the income statement immediately.

Where the amounts recognised in revenue exceed the amounts invoiced to the customer, the balance is included within 'amounts due from contract customers in respect to project work' within the statement of financial position.

Where the amounts recognised in revenue are less than the amounts invoiced to the customer, the balance is included within 'amounts due to contract customers in respect to project work' within the statement of financial position.

2.11.b. Sales (other than project sales) of goods and services at invoiced value

The revenue is recognised at the point at which the Company has transferred to the buyer the significant risks and rewards of ownership of the goods and services.

2.11.c. Fees for technical and other services rendered

Fees for technical services provided to third parties and the Parent company are recognised at the point at which the knowledge is transferred to the recipient. In the case of aid provided to the Parent company, this happens at the point at which the contract to which the aid relates is awarded to the Parent company. At this point any further support provided by the Company to the Parent is minimal and therefore revenue is recognised on the basis that the Company has substantially performed its obligated service to the Parent company. In the case of third parties, continuing support usually needs to be provided and so the revenue is instead recognised over the life of the project for which the aid has been provided.

2.12. Taxation

The tax charge comprises current tax and deferred tax, calculated using tax rates that have been enacted or substantively enacted by the reporting date. Current tax and deferred tax are charged or credited to the income statement, except when they relate to items charged or credited directly to equity, in which case the relevant tax is also reflected in equity. Current tax is based on the result for the year.

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

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

Notes to the financial statements (continued)
For the year ended 31 December 2016

2. Accounting policies (continued)

2.13. Pension costs

Defined benefit scheme
The Company operates pension schemes providing benefits based on final pensionable pay. The assets of the UK scheme are held separately from those of the Company. Contributions are based on periodic actuarial calculations and are charged so as to spread the cost of the pensions over the expected service lives of the employees who are members of the scheme. The 'Doosan Power Systems Limited' scheme was closed to new members on 31 March 2001. In April 2014 the UK defined benefit scheme was closed for future accruals.

Pension scheme assets are measured using fair value. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside of the income statement and presented in other comprehensive income.

Past service cost is recognised when any plan amendment or curtailment occurs to the extent that the benefits are already vested or is otherwise amortised on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the scheme.

Defined contribution scheme
The Company also operates defined contribution pension schemes. The assets of the scheme are held separately from those of the Company in an independently administered fund. The amounts charged against profit represent the contributions payable to the scheme in respect of the accounting period.

2.14. Operating profit

Operating profit is stated after charging restructuring costs, the share of results of associates and impairments but before gains on the disposal of investments, property, plant and equipment and finance costs.

2.15. Financial instruments

2.15.a. Derivatives

The Company uses derivative financial instruments to tackle interest rate risk and hedge exposures to fluctuations in foreign currencies in accordance with its risk management policies. Commodity risk is managed through escalation clauses in customer contracts. A description of the Company's objectives, policies and strategies with regard to derivatives and other financial instruments is set out in note 12.

Derivatives are initially recognised in the statement of financial position at fair value on the date the derivative transaction is entered into and are subsequently re measured at fair value.

2.15.b. Financial assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories, financial assets, cash and cash equivalents or 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Liquid resources and cash
Liquid resources comprise short-term treasury deposits which have maturity dates of up to one year, government securities and money market funds. Cash and cash equivalents comprises cash in hand and overnight deposits less, for the purpose of the cash flow statement only, overdrafts.

Loans and receivables
Trade receivables, loans and other receivables are non-derivative financial assets that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest method, less any impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

The effective interest rate amortisation is included in finance income in the income statement. The losses arising from impairment are recognised in the income statement in finance costs. Loans will be tested for impairment at each period end to determine if any impairment exists.

Derecognition of financial assets
The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its

Notes to the financial statements (continued)
For the year ended 31 December 2016

2. Accounting policies (continued)

2.15. Financial instruments (continued)

2.15.b. Financial assets (continued)
retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

2.15.c. Financial liabilities

Financial liabilities within the scope of IAS 39 are classified as loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of borrowings, carried at amortised cost. This includes directly attributable transaction costs.

The Company's financial liabilities include trade and other payables, borrowings and derivative financial instruments.

Loans and borrowings
Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to the income statement on an accruals basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade and other payables
Trade payables are not interest bearing and are stated at their fair value. Amounts due to customers for contract work relate to advances received from customers on contracts which are in progress.

2.15.d. Foreign currencies

The financial statements of the Company are presented in Pounds Sterling.

In preparing the financial statements, transactions in currencies other than Pound Sterling are recognised at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences on transactions entered into in order to hedge certain foreign currency risks (see note 2.15.a above under financial instruments); and

- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

2.16. Fair value estimation

The fair value at initial cost of financial instruments traded in active markets (such as publicly traded derivatives or trading and available-for-sale securities) is based on quoted market prices at the reporting date. The quoted market price used for traded financial assets held by the Company is the current bid price. The appropriate quoted market price for traded financial liabilities is the current offer price. The fair value of forward foreign exchange contracts is determined by measuring the difference between the exchange rate at the reporting date and the forward exchange rate per the contract. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses a variety of methods which include the use of recent arm's-length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models which reflect the specific instrument.

Where market values are not available, fair values are based on valuation methodologies which require inputs and forecasts to be made. Judgement is required in determining the appropriate assumptions underlying those inputs and forecasts.

The nominal value of receivables (less estimated impairments) and payables are assumed to approximate their fair values. The fair value of financial liabilities measured at amortised cost is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments. Discounted cash flows are used to determine the fair value for the majority of remaining financial instruments.

2.17. Impairment of available for sale investments

At each reporting date, the Company reviews the carrying amounts of its available for sale investments to determine whether there is any indication that the carrying amount of those assets may not be recoverable. If any such indication exists, the recoverable amount of the asset is reviewed in order to determine the amount of the impairment, if any.

Notes to the financial statements (continued)
For the year ended 31 December 2016

2. Accounting policies (continued)

2.18 Adoption of new and revised standards

New and revised IFRSs in issue but not yet effective

At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRSs that have been issued but are not yet effective (and in some cases had not yet been adopted in the EU):

- IFRS 9 Financial Instruments – effective for accounting periods beginning on or after 1 January 2018
- IFRS 15 Revenue from Contracts with Customer – effective date deferred to accounting periods beginning on or after 1 January 2018
- IFRS 16 Leases – effective for accounting periods beginning on or after 1 January 2019*
- IFRIC 22 – Foreign Currency Transactions and Advance Consideration – New Interpretation - effective date deferred to accounting periods beginning on or after 1 January 2018*
- IAS 12 (Amendments) Recognition of Deferred Tax Assets for Unrealised Losses – effective for accounting periods beginning on or after 1 January 2017*
- IAS 7 (Amendments) Statement of Cash Flows Disclosure Initiative – effective for accounting periods beginning on or after 1 January 2017*
- IFRS 2 (Amendments) Classification and Measurement of Share-based Payment Transactions – effective for accounting periods beginning on or after 1 January 2018*
- Clarification to IFRS15 'Revenue from contracts with customers' – effective on or after 1 January 2018*
- Annual Improvements to IFRSs: 2014 – 2016 Cycle – effective for accounting periods on or after 1 January 2017 or 1 January 2018 depending on the standard*

*Not yet endorsed for use in the European Union.

The directors of the Company do not anticipate that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods, with the exception of those discussed below.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 is a new standard which creates a single model for revenue recognition from contracts with customers. Under IFRS 15 revenue is allocated to performance obligations identified within the contract and revenue is recognised for each obligation once it is completed. The standard has been introduced to promote greater consistency and comparability across industries and capital markets. The new standard is effective for annual periods beginning on or after 1 January 2018. An assessment to ascertain the impact of the standard on the Company's financial statements is yet to be performed.

IFRS 16 Leases

IFRS 16 has established principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. Under IFRS 16 significant changes are introduced to lessee accounting, with the distinction between operating and finance leases removed and assets and liabilities recognised in respect of all leases (subject to limited exceptions for short term leases and leases of low value assets).

The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If the rate cannot be readily determined, the lessee will use their incremental borrowing rate. Subject to EU endorsement, IFRS16 would apply for annual reporting periods beginning on or after 1 January 2019. An assessment of the impact of the standard on the Company's financial statements is yet to be performed.

IFRS 9 Financial Instruments

IFRS 9 is effective for annual periods beginning on or after 1 January 2018. The application of IFRS 9 may change the measurement and presentation of financial instruments, depending on their contractual cash flows and the business model under which they are held. The impairment requirements will generally result in earlier recognition of credit losses. The new hedging model may lead to more economic hedging strategies meeting the requirements for hedge accounting. Assessments of the impact of the standard on the Company's and financial statements are yet to be performed.

Notes to the financial statements (continued)
For the year ended 31 December 2016

3. Critical accounting judgements and key sources of estimation of uncertainty

In the application of the Company's accounting policies, which are described in note 2, 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 affects both current and future periods.

Key sources of estimation uncertainty

The major uncertainty relating to ongoing contracts is the difficulty in assessing the final financial outcome and stage of completion of contracts recognised on a long term contract accounting basis.

The Company seeks to mitigate this uncertainty by regularly assessing the forecasted position on a contract by contract basis to confirm that they still reflect a best estimate of expected costs to complete.

Critical judgements in applying the Company's accounting policies

The following are the critical judgements that the Directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

3.1. Revenue and margin recognition

The Company's revenue recognition and margin recognition policies, which are set out in note 2.11 are central to how the Company values the work it has carried out in the financial year. These policies require forecasts to be made of the outcomes of long-term construction services which require assessments and judgements to be made on recovery of pre-contract costs, changes in work scopes, contract programmes, maintenance liabilities, potential liquidated damages and changes in costs including costs to complete.

3.2. Retirement benefit obligations

Details of the Company's defined benefit schemes are set out in note 6.3, including a table showing the sensitivity of the pension scheme obligations and the prospective 2016 charge to the income statement to different actuarial assumptions. At 31 December 2016 the defined benefit liability recognised on the Company's statement of financial position was £102,927,000 (2015: £60,138,000). Effects of changes in the actuarial assumptions underlying the benefit obligation, discount rates and the differences between expected and actual returns on the scheme's assets are classified as actuarial gains and losses. During 2016 the Company recognised net actuarial losses of £46,559,000 (2015: £12,30,000 gains) in equity. A sensitivity analysis in respect of these is set out in note 6.3.

3.3. Taxation

The Company provides for liabilities in respect of uncertain tax positions where additional tax may become payable in future periods and such provisions are based on management's assessment of exposures. The Company also recognises assets where a reduction in future tax or a future receipt of tax may crystallise, when it is deemed prudent to recognise such an asset based on management's assessment of such events.

3.4. Long term provisions

Other provisions include an amount of £8,386,000 (2015: £4,146,000) relating to potential claims for which the Company may be liable together with related legal costs. Due to the nature of these claims, it is not possible to predict precisely when these provisions will be utilised, but it is anticipated that, in the majority of cases, it would be in the medium term.

Notes to the financial statements (continued)

For the year ended 31 December 2016

4. Revenue

Revenue by origin

	2016 £000	2015 £000
Revenue from construction contracts and related services	389,037	457,496

All revenue in the Company originates from the United Kingdom

5. Operating loss

5.1. Operating loss is stated after charging / (crediting)

	2016 £000	2015 £000
Property, plant and equipment:		
Depreciation of owned assets	2,883	3,593
Intangible assets:		
Amortisation of software	3,001	4,630
Deferred development expenditure	2,128	-
Rentals under operating leases:		
Land and buildings	5,922	4,247
Hire of plant and machinery	2,081	2,000
Research and development:		
Revenue expenditure	12,084	17,205
Grants received to fund revenue expenditure	(10,636)	(15,103)
Development capitalised	1,697	-
Restructuring costs	9,134	5,690
Exchange (gains)/losses	(5,710)	8,144

5.2. Auditor's remuneration

	2016 £000	2015 £000
Audit of these financial statements	355	340
Services relating to taxation	519	120
Other	6	57
Total non-audit services	525	177

Notes to the financial statements (continued)

For the year ended 31 December 2016

6. Employees and directors

6.1. Employee numbers and staff costs

	2016	2015
Average monthly number of persons employed during the year (including directors employed):		
Production	3,002	3,491
Sales and administration	371	217
Research and development	109	101
	3,482	3,809

	2016 £000	2015 £000
Staff costs during the year (Including directors employed):		
Wages and salaries	177,919	187,109
Social security costs	18,362	18,849
Other pension costs	5,592	7,425
	201,873	213,383

6.2. Remuneration of directors

	2016 £000	2015 £000
Directors' emoluments:		
Current pay and benefits	756	1,010
Post-employment benefits	34	38
Social security costs	27	25
	817	1,073

The aggregate emoluments of the highest paid Director were £469,349 (2015: £379,189). There were £nil (2015: £nil) assets recoverable under long term incentive schemes of the highest paid director.

Since the Directors of the Company are also the key management personnel of the Company no additional information is required to be disclosed by IAS 24 in addition to the information already disclosed above.

Notes to the financial statements (continued)

For the year ended 31 December 2016

6. Employees and directors (continued)

6.3. Post-retirement benefits

The Company operates two defined contribution schemes, a Company Personal Pension Plan and a Stakeholder Plan. The charge for the year in respect of these schemes was £4,715,000 (2015: £5,044,000) at the year end.

The Company operates a defined benefit pension scheme (the 'scheme'), providing benefits based on final pensionable pay. The Scheme was closed to future benefit accrual with effect from 1 April 2014, with active members becoming deferred with a preserved pension in the Scheme based on their Pensionable Service and Final Pensionable Salary as at this date.

The assets of the scheme are invested by an independent trustee.

The scheme is an HMRC registered pension scheme and is subject to standard UK pensions and tax law. This means that the payment of contributions and benefits are subject to the appropriate tax treatments and restrictions and the scheme is subject to the scheme funding requirements outlined in section 224 of the Pensions Act 2004.

In accordance with UK trust and pensions law, the scheme has appointed trustees who are independent of the Company. Although the Company bears the financial cost of the scheme, the responsibility for the management and governance of the scheme lies with the trustees, who have a duty to act in the best interest of members at all time.

The main risks to which the Company is exposed in relation to the funded pension scheme are:

• Mortality risk - the assumptions adopted by the Company make allowance for the future improvements in life expectancy. However, if life expectancy improves at a faster rate than assumed, this would result in higher payments from the scheme and consequently increases the scheme's liabilities. The Company and the scheme's trustees review the mortality assumption on a regular basis to minimise the risk of using an inappropriate mortality assumption.

• Investment risk - the scheme invests its assets in a portfolio of asset classes including diversified growth funds, corporate bonds and government bonds. There is the possibility that the returns generated by the portfolio of assets falls below the assumed rates of return.

• Yield risk - a fall in bond yields will increase both the scheme's liabilities, and to a lesser extent, the scheme's assets. As the scheme's liabilities (on the funding basis used to calculate the Company's contributions to the scheme) are greater than its assets until the deficit is made good, during that time the liabilities may grow by more in monetary terms, thus increasing the deficit in the scheme.

• Inflation risk - Benefits in the scheme accrued increase in line with inflation (subject to the relevant caps and floors), and so if inflation is greater than expected, the liabilities will increase.

The results of the actuarial valuation of the scheme at 1 April 2013 have been updated to 31 December 2016 by a qualified actuary, using a set of assumptions consistent with those required under IAS 19 (revised). The effect of the scheme's investment policy is not fully reflected in the accounting figures as the assumptions used for the purpose of the valuation under IAS 19 (revised) are different from those used for the funding valuation.

Notes to the financial statements (continued)

For the year ended 31 December 2016

6. Employees and directors (continued)

6.3. Post-retirement benefits (continued)

The major assumptions used by the actuary were:

	2016	2015
Financial assumptions:		
Discount rate	2.70%	3.90%
Rate of increase in pensionable salaries	N/A	N/A
Rate of increase in pensions in payment (post-May 2002 service)	3.05%	2.95%
Rate of increase in pensions in payment (pre-May 2002 service)	3.70%	3.60%
Inflation assumption (and increases to pension in deferment)	3.20%	3.05%
Demographic assumptions:		
Pre-retirement mortality (male/female)	99%/109% S1NA/S1NFA, CMI 2015 +1.25% MI	99%/109% S1NA/S1NFA, CMI 2015 +1.25% MI
Post-retirement mortality for non-pensioner members (male/female)	99%/109% S1NA/S1NFA, CMI 2015 +1.25% MI	99%/109% S1NA/S1NFA, CMI 2015 +1.25% MI
Post-retirement mortality for pensioner members (male/female)	99%/109% S1NA/S1NFA, CMI 2015 +1.25% MI	99%/109% S1NA/S1NFA, CMI 20154 +1.25% MI

The rates used have been chosen from a range of possible amounts determined using actuarial assumptions that due to the timescale covered may not necessarily be borne out in practice. The assets in the scheme were:

	2016		2015	
	%	£000	%	£000
Diversified growth fund				
Barings	11.7	47,501	12.7	44,590
Insight BOF	10.8	44,216	12.1	42,294
Pyrford	11.1	45,237	11.8	41,201
Baillie Gifford	11.8	48,249	13.0	45,274
Bonds				
RLAM	12.3	50,179	14.2	49,436
Babson Capital	12.0	49,125	12.8	44,747
Insight LDI	15.5	63,349	15.2	52,987
Mercury Private Equity Fund	-	-	4.0	13,988
PIMCO	-	-	-	-
Insight liquidity plus	0.4	1,507	-	-
Insight Libor	3.2	13,223	-	-
Cash				
Trustee bank account	8.0	32,550	0.5	1,778
Other	3.2	12,900	3.7	12,900
Total market value of assets		408,036		349,195
Present value of liabilities		(510,963)		(409,333)
Deficit in scheme		(102,927)		(60,138)
Related deferred tax asset		17,878		10,825
Net pension liability		(85,049)		(49,313)

Notes to the financial statements (continued)

For the year ended 31 December 2016

6. Employees and directors (continued)

6.3. Post-retirement benefits (continued)

Sensitivity analysis

Inflation rate and discount rate are considered by the Directors to be the significant assumptions within the scheme, and as such, effects of changes to these have been disclosed below. A movement of +/- 25 bps on the discount rate and inflation assumptions reflects a realistic shift in market conditions over the short-term, whilst providing sufficient information about the sensitivity of the value of the Scheme's liabilities to these assumptions.

Effect on the deficit in the scheme of the following changes:	£m
0.25% increase in the discount rate	-20.5
0.25% decrease in the discount rate	+21.8
0.25% increase in the inflation rate	+10.3
0.25% decrease in the inflation rate	-10.0

Reconciliation of present value of plan liabilities and assets:

	2016 £000	2015 £000
Change in the present value of the defined benefit obligation:		
Opening defined benefit obligation	409,333	435,493
Interest cost	15,550	15,620
Employees' contributions	-	-
Actuarial (gains)/losses	107,506	(26,530)
Benefits paid	(21,426)	(15,250)
Closing defined benefit obligation	510,963	409,333
Change in the fair value of plan assets:		
Opening fair value of plan assets	349,195	361,547
Interest income	13,321	12,995
Actuarial (losses)/gains	60,947	(14,227)
Contributions by employer	6,875	5,000
Benefits paid	(21,426)	(15,250)
Other expenses	(876)	(870)
Closing fair value of plan assets	408,036	349,195

Notes to the financial statements (continued)
For the year ended 31 December 2016

6. Employees and directors (continued)
6.3. Post-retirement benefits (continued)

	2016 £000	2015 £000
Net change in the present value of plan liabilities and assets:		
Opening deficit	60,138	73,946
Service cost	-	-
Net interest expense	2,229	2,625
Net actuarial (gains)/losses	46,559	(12,303)
Contributions by employer	(6,875)	(5,000)
Administrative expenses	876	870
Closing deficit	102,927	60,138

The expected contributions in 2017 are £9,375,000 (2016: £6,875,000).

Analysis of other comprehensive income:

	2016 £000	2015 £000
Actual return less expected return on scheme assets	60,947	(14,227)
Experience losses arising on the scheme liabilities	(3,401)	5,518
Changes in assumptions underlying the scheme liabilities	(104,105)	21,012
Net actuarial gains/(loss) recognised in the period	(46,559)	12,303
Deferred tax	7,261	(3,693)
Actuarial gain/(loss) net of tax	(39,298)	8,610
Net cumulative actuarial losses after tax	(127,060)	(87,762)

Expense recognised in the income statement:

	2016 £000	2015 £000
Current service cost	-	-
Net interest expense	2,229	2,625
Administrative expenses	876	870
Total	3,105	3,495

The following items were recognised in administrative expenses in the income statement:

	2016 £000	2015 £000
Service cost	-	-
Administrative expenses	876	870
Total	876	870

Notes to the financial statements (continued)

For the year ended 31 December 2016

6. Employees and directors (continued)

6.3. Post-retirement benefits (continued)

The history of experience gains and losses is as follows;

	2016	2015	2014	2013	2012
Defined benefit obligation (£m)	(510.9)	(409.3)	(435.4)	(372.7)	(339.6)
Plan assets (£m)	408.0	349.2	361.5	321.1	312.1
Deficit (£m)	(102.9)	(60.1)	(73.9)	(51.6)	(27.5)
Difference between the expected and the actual return on scheme assets					
Amount (£m)	60.9	(14.2)	25.9	0.6	1.0
Percentage of scheme assets	(15%)	(4%)	7%	0%	0%
Experience gains/(losses) on scheme liabilities					
Amount (£m)	(3.4)	5.5	-	(6.9)	-
Percentage of present value scheme liabilities	(1%)	1%	0%	(2%)	0%
Total gains/(losses) recognised in statement of comprehensive income					
Amount (£m)	(46.6)	12.3	(28.4)	(24.4)	(17.8)
Percentage of present value of scheme liabilities	(9%)	3%	(7%)	(7%)	(5%)

7. Finance income and costs

	2016 £000	2015 £000
Interest receivable and similar income	15,077	15,799
Foreign exchange gains	5,710	980
Total finance income	20,787	16,779
Interest payable	(3,601)	(4,966)
Unwinding of discounting	(3,600)	(600)
Net finance cost on defined benefit scheme	(2,229)	(2,625)
Foreign exchange losses	-	(9,504)
Total finance costs	(9,430)	(17,695)
Net finance income / (cost)	11,357	(916)

Notes to the financial statements (continued)
For the year ended 31 December 2016

8. Taxation
8.1. Taxation charge

	2016 £000	2015 £000
Current tax:		
UK Corporation tax at 20% (2015: 20.25%)	-	-
Adjustments in respect of prior periods	-	-
	-	-
Overseas taxation	(252)	1,056
Total current tax	(252)	1,056
Deferred tax:		
Origination and reversal of temporary differences	(3,996)	599
Deferred tax on pension charge	589	271
Total deferred tax (note17)	(3,407)	870
Total tax (credit) / charge for the year	(3,659)	1,926

8.2. Factors affecting tax charge for the year
The current tax assessed for the period is lower (2015: lower) than the standard rate of corporation tax in the UK of 20% (2015: 20.25%). The differences are explained below:

	2016 £000	2015 £000
Loss before tax	(23,054)	(5,689)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2015:20.25%)	(4,611)	(1,152)
Tax effect of expenses that are not deductible in determining taxable profit	419	-
Group relief	-	800
Difference between rate applied and deferred tax rate	-	(81)
Effect of reduction in deferred tax rate	1,089	48
Enhanced relief on research and development expenditure	-	1,056
Withholding taxes	(252)	325
Adjustment in respect of prior periods*	(304)	930
Tax (credit) / charge for year	(3,659)	1,926

Factors that may affect future tax charges
The income tax expense for the year is based on the effective United Kingdom statutory rate of corporation tax of 20% (2015: 20.25%).

The Finance Act 2016, which provides for reductions in the main rate of corporation tax from 20% to 19% effective from 1 April 2017 and to 17% effective from 1 April 2020, was substantively enacted on 6 September 2016. These rate reductions have been reflected in the calculation of deferred tax at the balance sheet date. The closing deferred tax balances (see note 17) as at 31 December 2016 have been calculated at 17% reflecting the tax rate at which the balances are expected to be utilised or reversed in future periods.

8.3. Tax recognised in other comprehensive income

	Before tax £000	Tax credit £000	After tax £000
2016			
Relating to actuarial movement in retirement benefit obligations	(46,559)	7,261	(39,298)
2015			
Relating to actuarial movement in retirement benefit obligations	12,303	(3,692)	8,611

Notes to the financial statements (continued)
For the year ended 31 December 2016

9. Intangible assets

	Goodwill £000	Deferred development expenditure £000	Software * £000	Total
Cost				
At 1 January 2015	971	6,447	27,999	35,417
Additions	-	3,585	186	3,771
Disposals	-	-	(337)	(337)
At 31 December 2015	971	10,032	27,848	38,851
Additions	-	1,698	75	1,773
Disposals	-	-	-	-
At 31 December 2016	971	11,730	27,923	40,624
Amortisation				
At 1 January 2015	376	-	11,808	12,184
Charge for the year			4,630	4,630
Disposals	-	-	(337)	(337)
At 31 December 2015	376	-	16,101	16,477
Charge for the year	-	2,128	3,001	5,129
Disposals	-	-	-	-
At 31 December 2016	376	2,128	19,102	21,606
Net book value at				
At 31 December 2015	595	10,032	11,747	22,374
31 December 2016	595	9,602	8,821	19,018

* Included within software is the cost of setting up the new enterprise, resource and planning system, Oracle, which went live in 2013. This had a cost of £22,132,000 and net book value of £8,907,000 at the end of the year.

The charge for amortisation of intangible fixed assets is included within administrative expenses on the income statement.

Notes to the financial statements (continued)

For the year ended 31 December 2016

10. Property, plant and equipment

	Land and buildings £000	Plant and equipment £000	Assets in the course of construction £000	Total £000
Cost				
At 1 January 2015	6,437	61,357	2,816	70,610
Additions	96	1,608	379	2,083
Disposals	-	(341)	-	(341)
At At 31 December 2015	6,533	62,624	3,195	72,352
Additions	47	1,236	72	1,355
Disposals	-	(572)	-	(572)
At 31 December 2016	6,580	63,288	3,267	73,135
Depreciation				
At 1 January 2015	3,646	55,026	-	58,672
Charge for the period	232	3,361	-	3,593
Disposals	-	(336)	-	(336)
At 31 December 2015	3,878	58,051	-	61,929
Charge for the period	248	2,635	-	2,883
Disposals	-	(562)	-	(562)
At 31 December 2016	4,126	60,124	-	64,250
Net book value at				
At 31 December 2015	2,655	4,573	3,195	10,423
31 December 2016	2,454	3,164	3,267	8,885

Included in the net book value of land and buildings is land at a cost of £1,270,000 (2015: £1,270,000) which is not depreciated.

In November 2015 a revaluation of land assets was performed by an independent valuer. This was done in order to comply with the accounting policy adopted by the parent group to reflect a more appropriate valuation of land in the group and follow the treatment allowed by IAS16. The revaluation exercise identified that land is held at an appropriate amount and therefore there has been no change to the carrying amount.

The net book value of land and buildings comprises:

	2016 £000	2015 £000
Freehold	1,884	1,965
Leasehold – short	570	690
	2,454	2,655

There are no contractual obligations to fund future tangible assets.

There are no restrictions on title given to banks of any fixed assets held by the Company.

Notes to the financial statements (continued)
For the year ended 31 December 2016

11. Investments in subsidiaries and associates

	Subsidiaries £000	Total £000
Cost		
At 1 January 2015	1,413	1,413
Capital injection	788	788
At 31 December 2015	2,201	2,201
At 31 December 2016	2,201	2,201
Impairment		
At 1 January 2015	(413)	(413)
Charge for the year	(414)	(414)
At 31 December 2015	(827)	(827)
Charge for the year	(314)	(314)
At 31 December 2016	(1,141)	(1,141)
Net book value at		
At 31 December 2015	1,385	1,385
31 December 2016	1,060	1,060

Direct subsidiaries of the Company:

All 100% owned unless otherwise stated:	Notes	Registered Office
Principal subsidiary undertakings:		
Doosan Babcock Energy Services (Overseas) Limited	A	Doosan House, Crawley Business Quarter, Manor Royal, Crawley, RH10 9AD, UK
Doosan Power Systems Americas LLC	A	1050 Crown Pointe Parkway, Suite 1200, Atlanta, GA 30338, USA
Other subsidiary undertakings:		
Doosan Power Systems Overseas Investments Limited	B	Doosan House, Crawley Business Quarter, Manor Royal, Crawley, RH10 9AD, UK
Doosan Power Systems Pension Trustee Company Limited	C	Doosan House, Crawley Business Quarter, Manor Royal, Crawley, RH10 9AD, UK
Joint ventures and associates:		
Doosan Babcock W.L.L (49%)	AD	Office 1449, Al Fardan Office Tower, 14th Floor, PO Box 31316, Doha Qatar
Doosan Babcock General Maint Services L.L.C. (49%).	AD	21st Floor Tamouh Tower Al Reem Island Abu Dhabi UAE PO Box 31234

Notes on nature of business

A Providing high value-added energy services and innovative technology led business solutions to the power generation industry and associated markets

B Holding company

C Dormant company

D Whilst the shareholding of these companies is 49%, Doosan Babcock exercises control over them through holding 3-1 positions on the board, appointing its own local General manager and having entitlement to 90% of profits from these companies. Therefore the Directors consider that Doosan Babcock exercises full control over these two companies and are classifying them as subsidiaries accordingly.

Notes to the financial statements (continued)

For the year ended 31 December 2016

11. Investments in subsidiaries and associates (continued)

The Company has the following indirect subsidiaries:

All 100% owned unless otherwise stated:	Notes		Registered Office
Principal subsidiary undertakings:			
Doosan Babcock Energy Technologies (Shanghai) Limited	1	A	12F, No. 1088 Fangdian Road, Zizhu International Building, Pudong New Area,Shanghai 201204, China
Doosan Babcock Energy Polska Sp. z.o.o. (98.90%)	1	A	Podmiejska 7, Rybnik, Poland
Doosan Babcock Energy Germany GmbH	2	A	Droßiger Weg 56, D-06188 Landsberg OT Hohenthurm, Germany
Doosan Lentjes GmbH (99.04%)	2	A	Daniel Goldbach Str.19, Ratingen 4880, Germany
Other subsidiary undertakings:			
Doosan Power Systems Europe GmbH	1	A	Daniel Goldbach Str.19, Ratingen 40880, Germany
Doosan Lentjes UK Limited (formerly AE&E Lentjes UK Limited)	3	A	Doosan House, Crawley Business Quarter, Manor Royal, Crawley, RH10 9AD, UK
Doosan Lentjes Czech s.r.o. (formerly AE & E Lentjes Praha s.r.o.)	3	A	Sokolovská 668/136d, 18600 Praha 8, Czech Republic
Doosan Lentjes Belgium N.V. (formerly AE & E Lentjes Belgie N.V.)	3	A	Brasschaat, 292, 2930 , Kapelsesteenweg, Belgium
Available-for-sale investment:			
HTC Purenergy Inc. (7.35%)	1	B	002 2305 Victoria Avenue, Regina, Saskatchewan, S4P 0S7, Canada
Doosan Power Systems India Private Limited (0.5%)	1	A	DLF Square Building, DLF Phase 2, Gurgaon, Haryana, India

Notes on holdings

1 Indirectly held through Doosan Power Systems Overseas Investments Limited

2 Indirectly held through Doosan Power Systems Europe GmbH

3 Indirectly held through Doosan Lentjes GmbH

Notes on nature of business

A Providing high value-added energy services and innovative technology led business solutions to the power generation industry and associated markets

B Research and development of innovative technology for the power generation industry

Notes to the financial statements (continued)

For the year ended 31 December 2016

12. Financial instruments

Accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised in respect of each class of financial asset and financial liability are set out in note 2.15.

Capital risk management

The Company manages its capital to ensure its ability to continue as a going concern and to maintain its optimal capital structure. The capital structure of the Company consists of equity, loans and retained earnings ultimately attributable to Doosan Heavy Industries & Construction Co., Ltd, a company based and registered in the Republic of Korea.

The Company manages its capital with the clear goal of optimising revenues, costs and assets of its individual operations, ensuring sufficient liquidity at all times. This ensures that the Company can operate on a going concern basis.

The Company's capital structure consists of common stock, capital reserves and retained earnings.

12.1. Categories of financial instruments

	Receivables / (payables) cash and cash equivalents £000	Derivatives £000	Total £000
2016			
Financial assets			
Cash and cash equivalents	4,026	-	4,026
Trade and other receivables	604,191	-	604,191
Derivatives	-	649	649
Total	608,217	649	608,866
Financial Liabilities			
Trade and other payables	(139,466)	-	(139,466)
Derivatives	-	(215)	(215)
Total	(139,466)	(215)	(139,681)

	Receivables / (payables) cash and cash equivalents £000	Derivatives £000	Total £000
2015			
Financial assets			
Cash and cash equivalents	25,865	-	25,865
Trade and other receivables	632,050	-	632,050
Derivatives	-	29	29
Total	657,915	29	657,944
Financial Liabilities			
Trade and other payables	(158,420)	-	(158,420)
Derivatives	-	(1,820)	(1,820)
Total	(158,420)	(1,820)	(160,240)

In the opinion of the Directors, the carrying amount of financial assets and liabilities are a reasonable approximation of fair value.

Aside from derivatives, substantially all financial assets and liabilities of the Company are due within one year.

Notes to the financial statements (continued)

For the year ended 31 December 2016

12. Financial instruments (continued)

12.2. Derivatives

All derivative assets and liabilities on the statement of financial position relate to foreign exchange hedges against cash flows.

The Company does not apply hedge accounting and so does not have a hedging reserve.

	Current assets £000	Non-current assets £000	Total £000	Current liabilities £000	Non-current liabilities £000	Total £000
2016						
At fair value through profit or loss	425	224	649	(150)	(65)	(215)
Total	425	224	649	(150)	(65)	(215)
2015						
At fair value through profit or loss	29	-	29	(1,626)	(194)	(1,820)
Total	29	-	29	(1,626)	(194)	(1,820)

The table below shows the maturity of the derivatives and hence when the effect of their exercise will be seen as cash flow:

	2016 Receivable £000	2016 Payable £000	2016 Total £000	2015 Receivable £000	2015 Payable £000	2015 Total £000
Maturing within:						
One year	10,513	(10,239)	274	99,437	(101,033)	(1,596)
One to two years	2,117	(2,096)	21	1,628	(1,668)	(40)
Two to five years	1,897	(1,758)	139	1,947	(2,102)	(155)
Total	14,527	(14,093)	434	103,012	(104,803)	(1,791)

12.3. Fair value estimation

The Company holds certain financial instruments on the statement of financial position at their fair value. The following table provides an analysis of those that are measured subsequent to initial recognition at fair value through profit or loss, grouped into levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). Specifically the value of these assets and liabilities are determined by measuring the difference between the exchange rate at the reporting date and the forward exchange rate per the contract; and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

There have been no transfers between these categories in the current or preceding year.

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
2016				
Financial assets – foreign currency contracts	-	649	-	649
Total assets measured at fair value	-	649	-	649
Financial liabilities – foreign currency contracts	-	(215)	-	(215)
Total	-	(215)	-	(215)
2015				
Financial assets – foreign currency contracts	-	29	-	29
Total assets measured at fair value	-	29	-	29
Financial liabilities – foreign currency contracts	-	(1,820)	-	(1,820)
Total	-	(1,820)	-	(1,820)

Notes to the financial statements (continued)

For the year ended 31 December 2016

12. Financial instruments (continued)

12.4. Financial risk factors

The Company's activities expose it to a variety of risk factors: market risk, liquidity risk, exchange rate risk, commodity risk, credit risk and interest rate risk. The Company's risk management strategy seeks to minimise the potential adverse effects of these risks on the Company's financial performance.

Financial risk management is carried out centrally by Company Treasury under policies approved by the Board. Company Treasury liaises with the Company's operating units to identify, evaluate and hedge financial risks. The Company uses derivative financial instruments to hedge risk exposures. The Company does not trade in financial instruments for speculative purposes.

a) Market risk

The primary market risk that the Company is exposed to arises in the defined benefit pension scheme. The Company is exposed to the performance of the assets invested in equities and bonds as well as the impact on liabilities of movements in bond rates and other actuarial assumptions which can vary significantly over time. To tackle these risks the Company has taken a number of actions over the previous years including increasing contributions and closing the defined benefit scheme to new entrants and to future accruals. There is an investment sub-committee jointly appointed by the Company and Pension Trustees in addition to the financial advisers appointed by the Trustees who aim to optimise the performance of the scheme's assets. Asset selection is undertaken to match the future liabilities of the scheme, a large proportion of the assets are held in fixed income investments, so that movements in asset and liabilities are correlated to mitigate market risk.

b) Liquidity risk

The Company manages liquidity risk by maintaining adequate cash balances, continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Company policy is to maintain a fixed percentage of surplus cash on instant access bank accounts and money market funds in order to cover any unexpected shortfall in cash.

c) Exchange risk

The Company operates internationally and is exposed to foreign exchange risk arising from exposure to various currencies, primarily to US Dollars, Euros and Hong Kong Dollars whilst its functional currency is in Pound Sterling. Foreign exchange risk arises from future trading transactions, assets and liabilities and net investments in foreign operations.

Company policy requires operating companies to tackle their transactional foreign exchange risk against their functional currency. Company Treasury enters into forward contracts on behalf of operating companies to cover foreign exchange transaction risk above pre-set materiality levels determined by the Chief Financial Officer whenever a current or future foreign currency exposure is identified with sufficient reliability.

Hedge accounting is applied to these transactions above a predetermined materiality level.

The Company is also exposed to tender exchange rate risk, which is the risk of financial loss as a result of adverse exchange rate movements during the tender period. The Company manages this risk by agreeing price adjustment formulae with the customer where possible and also by including an appropriate level of contingency in the tender exchange rates used.

Details of forward foreign exchange contracts outstanding at the reporting date in respect of foreign currency transaction exposures are set out in note 12.1 above.

d) Commodity risk

The Company is exposed to commodity price risk in its normal operations. This risk is managed by agreeing escalation formulae in commercial contracts with customers that enables the Company to recover any losses incurred as a result of an increase in the price of a commodity.

e) Credit risk

Credit risk is the risk that the counterparty will default on its contractual obligations, resulting in financial loss. Credit risk arises from cash and cash equivalents, derivative financial instruments and credit exposures to customers, including outstanding receivables and committed transactions. The Company also has a policy of assessing the creditworthiness of potential customers before entering into transactions.

For cash and cash equivalents and derivative financial instruments the Company has a policy of depositing funds only with independently rated counterparties with a minimum Fitch short- and long-term credit rating of F1/A. Management monitors the utilisation of these credit limits regularly.

For trade and other receivables credit evaluation is performed on the financial condition of accounts receivable using independent ratings where available or by assessment of the customer's credit quality based on its financial position, past experience and other factors. Where deemed necessary, the Company will insist upon a bank guarantee or parent company guarantee before entering into a contract with a counterparty.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Company's maximum exposure to credit risk.

Notes to the financial statements (continued)

For the year ended 31 December 2016

12. Financial instruments (continued)

12.4 Financial risk factors (continued)

f) Interest rate risk

Interest rate risk is currently considered to be low due to market conditions and as a result all interest is paid on a variable rate basis. This is constantly under review by Company Treasury and should the risk increase loans may be switched to a fixed rate basis.

At 31 December 2016 the Company had an undrawn overdraft facility with HSBC of £40m (2015: £60m revolving credit facility with KBC Bank). On 28 February 2017 this was increased to £50m. The interest rate on this overdraft is paid at a margin above Bank of England base rate.

13. Inventory

	2016 £000	2015 £000
Raw materials and consumables	926	951
Inventory allowance	(38)	(38)
Work-in-progress	483	1,918
	1,371	2,831

14. Trade and other receivables

14.1. Trade and other receivables

	2016 £000	2015 £000
Current:		
Trade receivables	33,550	31,931
Loss provision for impairment of receivables	(1,383)	(1,718)
Amounts owed by Group undertakings	508,674	541,937
Other receivables	2,731	1,053
Prepayments and accrued income	16,335	18,387
Total receivables	559,907	591,590

Notes to the financial statements (continued)

For the year ended 31 December 2016

14. Trade and other receivables (continued)

14.2. Allowance for impairment of receivables

The Directors consider that the carrying values of current trade and other receivables approximate their fair values. It is Company policy to hedge against net cash inflows in foreign currencies, which may not necessarily equal the revenues received from invoicing trade receivables.

Based on prior experience and an assessment of the current economic environment, management believes there is no further credit risk provision required in respect of trade receivables.

	2016 £000	2015 £000
Balance as at 1 January	(1,718)	(599)
Charged to the income statement:		
Utilised provisions	90	32
Additional provisions	(5)	(1,156)
Reversed provisions	250	5
Balance at 31 December	(1,383)	(1,718)

The provision for impairment of trade receivables is based on a review of financial circumstances of individual customers. The ageing of the impaired receivables based on due date is as follows:

	2016 £000	2015 £000
Up to 1 month	-	-
1 to 2 months	-	7
2 to 6 months	-	-
6 to 24 months	-	1,130
Over 24 months	1,383	581
	1,383	1,718

The trade receivables disclosed above include amounts which are past due at the reporting date, but against which the Company has not recognised an allowance for doubtful receivables because there has not been a significant change in credit quality and we have strong relationships with most of our customers. The Company does not hold any collateral or other credit enhancements over these balances, nor does it have a legal right of offset against any amounts owed by the Company to the counterparty.

At 31 December 2016 trade and other receivables in the Company of £5,298,000 (2015: £6,887,000) were past due, but not impaired. These relate to a number of customers for which management believe their debt is not recoverable. The ageing analysis of these receivables is as follows:

	2016 £000	2015 £000
Up to 1 month	69	2,233
1 to 2 months	-	45
2 to 6 months	-	491
6 to 24 months	905	1,761
Over 24 months	4,324	2,357
	5,298	6,887

Notes to the financial statements (continued)

For the year ended 31 December 2016

15. Trade and other payables

	2016 £000	2015 £000
Trade payables	34,972	40,692
Amounts owed to Group undertakings	45,582	83,827
Other payables including taxation and social security	16,156	18,157
Accruals and deferred income	35,440	24,403
Subsidiaries called up share capital not paid	750	750
	132,900	167,829

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 53 days (2015: 53 days). For most suppliers no interest is charged on overdue invoices. The Company has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms. The Directors consider that the carrying amount of trade payables approximates to their fair value.

16. Provisions

	Restructuring Provision £000	Total current £000	Onerous leases £000	Other £000	Total non-current £000
Balance at 1 January 2015	-	-	1,371	5,641	7,012
Income statement charge	4,200	4,200	-	293	293
Amounts reversed	-	-	(1,124)	(1,130)	(2,254)
Unwinding of discounting	-	-	83	600	683
Applied in the year	-	-	-	(1,258)	(1,258)
Balance At 31 December 2015	4,200	4,200	330	4,146	4,476
Income statement charge	8,834	8,834	-	372	372
Reclassification				880	880
Unwinding of discounting	-	-	62	3,538	3,600
Applied in the year	(4,200)	(4,200)	(43)	(549)	(592)
Balance at 31 December 2016	8,834	8,834	349	8,387	8,736

The restructuring provision has been recognised following the Company beginning a process to adapt to the evolving energy industry and help ensure it is well placed to capitalise on future opportunities.

At the balance sheet date the onerous lease provision related to the difference between rental income and contracted expense in the Park House building over the remainder of the lease.

Other provisions also include an amount of £7.5m (2015: £4.1m) relating to potential claims for which the Company may be liable together with related legal costs. Due to the nature of these claims, it is not possible to predict precisely when these provisions will be utilised, but it is anticipated that, in the majority of cases, it would be in the medium term.

Notes to the financial statements (continued)

For the year ended 31 December 2016

17. Deferred tax

	Accelerated tax depreciation £000	Retirement based obligations £000	Provisions and other payables £000	Losses £000	Other £000	Total £000
At 1 January 2015	3,355	14,789	186	5,443	649	24,422
Credited / (Charged) to income statement	262	(271)	(152)	(60)	(649)	(870)
Charged to other comprehensive income	-	(3,693)	-	-	-	(3;693)
At 31 December 2015	3,617	10,825	34	5,383	-	19,859
Credited / (Charged) to income statement	357	(589)	-	3,639	-	3,407
Credited to other comprehensive income	-	7,261	-	-	-	7,261
At 31 December 2016	3,974	17,497	34	9,022	-	30,527
At 31 December 2015						
Deferred tax assets	3,617	10,825	34	5,383	-	19,859
	3,617	10,825	34	5,383	-	19,859
At 31 December 2016						
Deferred tax assets	3,974	17,497	34	9,022	-	30,527
	3,974	17,497	34	9,022	-	30,527

The Company has no deferred tax liabilities.

A deferred tax asset has been recognised only to the extent that there are expected to be future taxable profits against which the asset will be utilised.

18. Share capital

	2016 £000	2015 £000
Called up, allotted and fully paid		
Ordinary shares of £1	261,957	261,957

All ordinary shares issued are fully paid, Ordinary shares carry no right to fixed income, but each share carries the right to one vote at general meetings of the Company. There is no specified authorised share capital.

All shares are classed as equity.

Notes to the financial statements (continued)

For the year ended 31 December 2016

19. Retained earnings

	£000
Balance at 1 January 2015	192,258
Profit for the year	(7,615)
Actuarial loss on post-employment obligations	12,304
Deferred tax credit thereon	(3,692)
At 31 December 2015	193,254
Loss for the year	(19,395)
Actuarial gain on post-employment obligations	(46,559)
Deferred tax debit thereon	7,261
Balance at 31 December 2016	134,561

20. Notes to the cash flow statement

Cash used in operations comprises:	2016 £000	2015 £000
Operating (loss)/profit	(33,729)	(4,358)
Non-cash pension adjustment	(5,999)	(4,129)
Amortisation of intangible assets	5,129	4,630
Depreciation of property, plant and equipment	2,883	3,593
Loss on disposal of property, plant and equipment	3	4
Fair value of forward exchange contracts	-	-
Operating cash flow before movements in working capital	(31,737)	(260)
Decrease in inventories	1,460	841
Increase in receivables	(5,690)	(43,162)
Increase in payables	4,022	22,110
Cash used in operations	(31,921)	(20,471)
Cash and cash equivalents comprise:		
Cash and deposits	4,026	25,865

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of less than three months.

Notes to the financial statements (continued)

For the year ended 31 December 2016

21. Capital commitments

The company has no capital commitments.

22. Contingent liabilities

In the ordinary course of business the Company has guarantees and counter indemnities in respect of bonds relating to performance under contracts. The Company also enters into forward exchange contracts to reduce its risk and exposure to fluctuations in exchange rates, which accrue in the ordinary course of business.

23. Leasing

Operating leases

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

	2016 £000	2015 £000
Leases on land and buildings expiring:		
within one year	3,537	4,131
between one and five years	16,925	16,341
after five years	13,842	17,468
Leases on other assets expiring:		
within one year	1,390	1,573
between one and five years	1,135	1,978
Total	22,036	41,491

Future payments on operating leases relate primarily to motor vehicles and office premises. The leases have a variety of expiry dates mainly falling within three years for the smaller leases. £19.5m of the liabilities relate to the office premises in Renfrew, which is committed up to 2026. There are also office premises in Crawley, which is committed up to 2025. During the year total payments of £5.7m (2015: £6.2m) were made by the Company for operating leases. The lease expenditure charged to the income statement during the year is disclosed in note 5.

24. Construction contracts in progress

	2016 £000	2015 £000
Amounts due from customers for contract work		
– Billed	33,549	31,931
– Unbilled	49,032	50,114
Amounts due to customers for contract work	(21,339)	(26,836)
	61,242	55,209

The aggregate amount of costs incurred, plus recognised profits (less recognised losses) for all contracts in progress that had not reached practical completion at the reporting date was £2,215m (2015: £2,093m).

Notes to the financial statements (continued)

For the year ended 31 December 2016

25. Related party transactions

Receivables and payables from subsidiary undertakings

	2016 £000	2015 £000
Receivables		
Amounts owed by Doosan Babcock Energy Germany GmbH	11,727	6,407
Amounts owed by Doosan Power Systems Europe GmbH	7,078	6,186
Amounts owed by Doosan Power Systems Overseas Investments Limited	59,794	58,235
Amounts owed by Doosan Babcock W.L.L	261	187
Amounts owed by Doosan Babcock General Maint Services L.L.C.	12,289	2,992
Total receivables	91,149	74,007
Payables		
Amounts owed to Doosan Babcock Energy Services (Overseas) Limited	3,760	4,146
Amounts owed to Doosan Lentjes GmbH	28,192	23,512
Amounts owed to Doosan Power Systems Europe GmbH	2,171	-
Amounts owed by Doosan Babcock W.L.L	500	-
Amounts owed to Doosan Babcock Energy Technologies (Shanghai) Limited	860	354
Amounts owed to other subsidiary undertakings	389	235
Total payables	35,872	28,247

Income and costs from subsidiary undertakings

	2016 £000	2015 £000
Income		
Doosan Babcock Energy Services (Overseas) Limited	387	-
Doosan Power Systems Europe GmbH	24	17
Doosan Lentjes GmbH	4	459
Doosan Babcock General Maint Services L.L.C.	2,588	2,089
Doosan Power Systems America LLC	712	930
Doosan Babcock Energy Germany GmbH	1,213	760
Doosan Babcock Energy Polska Sp. z.o.o.	42	334
Total income	4,970	4,589

Notes to the financial statements (continued)
For the year ended 31 December 2016

25. Related party transactions (continued)

Income and costs from subsidiary undertakings (continued)

	2016 £000	2015 £000
Costs		
Doosan Power Systems America LLC	2,419	3,323
Doosan Babcock Energy Technologies (Shanghai) Limited	1,213	833
Doosan Babcock Energy Germany GmbH	3,959	8,854
Doosan Babcock W.L.L	426	-
Doosan Babcock Energy Polska Sp. z.o.o.	225	808
Doosan Power Systems Europe GmbH	92	256
Doosan Power Systems Czech Investments s.r.o.	-	795
Total costs	8,334	14,074

Finance income and costs from subsidiary undertakings

	2016 £000	2015 £000
Finance income		
Doosan Power Systems Overseas Investments Limited	1,559	651
Total finance income	1,559	1,086
Finance costs		
Doosan Lentjes GmbH	901	736
Total finance costs	901	736

Receivables and payables from other group entities

	2016 £000	2015 £000
Amounts owed by Doosan Power Systems Holdings Limited	-	54,283
Amounts owed by Doosan Power Systems S.A.	402,506	385,845
Amounts owed by Doosan Heavy Industries & Construction Co., Ltd	14,325	17,087
Amounts owed by Doosan Power Systems India	636	322
Amounts owed by Doosan Corporation	18	143
Amounts owed by other group undertakings	41	94
Total receivables	417,526	457,774
Amounts owed to Doosan Skoda s.r.o.	44	43,196
Amounts owed by Doosan Heavy Industries & Construction Co., Ltd	3,790	-
Doosan Information and Communications Europe Limited	2,449	1,072
Doosan Power Systems (Scotland) Limited Partnership	3,371	1,157
Total payables	9,654	45,425

Notes to the financial statements (continued)

For the year ended 31 December 2016

25. Related party transactions (continued)

Income and costs from other group entities

	2016 £000	2015 £000
Income		
Doosan Heavy Industries & Construction Co., Ltd	22,225	23,518
Doosan Skoda s.r.o.	39	1,234
Doosan Information and Communications Europe Limited	1,716	1,418
Doosan Power Systems India	200	189
Total income	24,180	26,359
Costs		
Doosan Power Systems S.A.	-	5,137
Doosan Heavy Industries & Construction Co., Ltd	3,157	1,343
Doosan Skoda s.r.o.	-	13
Doosan Information and Communications Europe Limited	14,392	11,317
Doosan Corporation	-	7
Doosan Power Systems (Scotland) Limited Partnership	2,786	1,444
Total costs	20,335	19,261

Finance income and costs from other group entities

	2016 £000	2015 £000
Finance income		
Doosan Power Systems Holdings Limited	2,062	2,357
Doosan Power Systems S.A.	3,349	14,323
Total finance income	5,411	16,680
Finance costs		
Doosan Skoda s.r.o.	92	778
Total finance costs	92	778

Notes to the financial statements (continued)

For the year ended 31 December 2016

26. Subsequent events

On 26th May 2017 HSBC granted a £10m increase to the overdraft facility to £50m, providing increased working capital to the business.

27. Ultimate parent company and controlling party

The Company is a subsidiary undertaking of Doosan Corporation Co., Ltd registered in the Republic of Korea which the Directors consider to be the Company's ultimate parent company. This is the largest group in which the results of the Company are consolidated. The smallest such group is that headed by Doosan Power Systems S.A., which is registered in Luxembourg, Doosan Power Systems S.A. is the parent of the Company.

The consolidated financial statements of Doosan Corporation Co., Ltd are available to the public and may be obtained from Euljiro 6-ga, Jung-gu, Seoul, the Republic of Korea, 100-730.

The consolidated financial statements of Doosan Power Systems S.A. are available to the public and may be obtained from Doosan House, Crawley Business Quarter, Manor Royal, Crawley, RH10 9AD, United Kingdom.

Doosan Babcock Limited

Annual report and financial statements for the year ended 31 December 2016

Reg no. 00839354

Contents

Officers and professional advisers

Directors

Andrew Adam Colquhoun
Suk Joo Kang
Byoung Man Kim
Jin Won Mok

Company secretary

Mark Sunley

Registered number

00839354

Registered office

Doosan House
Crawley Business Quarter
Manor Royal
Crawley
West Sussex
RH10 9AD

Independent auditors

Deloitte LLP
Crawley
United Kingdom

Strategic report
For the year ended 31 December 2016

The Directors present their strategic report on Doosan Babcock Limited (the 'Company') for the year ended 31 December 2016.

Business Review

Trading performance

The energy industry is experiencing a period of rapid market evolution, with the movement away from coal to other sources of energy. A combination of this evolution and investment uncertainty following the United Kingdom's vote in June 2016 to leave the European Union ("Brexit"), has led to 2016 being a challenging year for the Company. This is reflected in the trading performance of the Company which secured order intake of £414,099,000 down 18.4% on 2015 (£507,181,000). Revenues for the year were £389,037,000 compared to £457,496,000 in 2015, caused by the timing of project awards in 2016 following volume peaks on projects in 2015.

Operating loss was £33,729,000 compared to an operating loss of £4,358,000 in 2015. The operating loss includes the recognition of restructuring costs totalling £9,134,000 in 2016 (2015: £5,690,000) as the Company undertakes a process to adapt to the evolving energy industry and ensure it is well placed to capitalise on future opportunities. After an impairment charge of £314,000 (2015: £414,000), exchange gains of £5,710,000 (2015: exchange losses £8,524,000), other net finance income of £5,647,000 (2015: £7,608,000) and income tax credit of £3,659,000 (2015: £1,926,000 expense) the loss after tax was £19,395,000 compared to £7,615,000 in 2015.

Year end position

The Company's year-end cash position has decreased with a balance at 31 December 2016 of £4,026,000 (2015: £25,865,000) and net assets of £397,491,000 (2015: £456,184,000)

Financial key performance indicators

The Directors consider that the following key performance indicators are the most effective measures of the performance of the business. These measures are reviewed each month by senior management.

Key financial performance indicators and 2016 performance:

Key performance indicator	2016	2015
Order intake (£000)	414,099	507,181
Revenue (£000)	389,037	457,496
Operating (loss)/profit (£000)	(33,729)	(4,358)

Non-financial key performance indicators

The Directors consider that the following key performance indicators are the most effective measures of achievement of the Company's objective to provide the highest standards of Quality, Health, Safety and Environmental management.

These measures are reviewed each month by senior management and highlight excellent performance and identify any areas for improvement. The objectives are supported by initiatives developed to drive forward continuous improvements to procedures and processes.

Key non-financial performance indicators and 2016 performance:

Non-financial key performance indicator	2016	2015
Reportable lost time accidents	1	3
Accident injury frequency rate (per 100,000 hours worked)	0.01	0.02
Recordable injury frequency rate (per 200,000 hours worked)	0.29	0.36
Health and safety regulatory breaches	None	None
Environmental issues and compliance with regulator licence	None	None
'Achilles' score – independent assessment of supplier credentials for quality, heath, safety and environment	100%	98%

Likely future developments

The priorities for the business going forward will be to implement the restructuring programme to achieve a right-sized overhead base. The business will continue its policy of growth and diversification by looking to capitalise on opportunities to grow internationally and to benefit from opportunities for growth in providing high value solutions to customers. This will help achieve a balanced portfolio aligned to new market dynamics.

There are also increasing opportunities to collaborate further with our parent company (Doosan Heavy Industries & Construction Co Ltd) to increase our access to these and other global markets. The business also sees opportunities in the green sector and is continuing its investment in the development of new technologies in response to the evolving global energy landscape.

By the end of May 2017 the Company had won £95m of orders, bringing the order book and hence future contracted revenue for the Company to £422m. The full year order intake is expected to be £381m.

Principal risks and uncertainties

Managing risk is seen as a key attribute of the Company, with a focus on quality in everything we do. The backbone of our business is our people who we make significant efforts to train and develop through our many accredited programmes to ensure that they are amongst the best in their respective fields.

The major uncertainties in terms of trading in the current market are the fluctuations in raw material and supplier costs, especially on key contracts. Reflecting this situation where a position is particularly volatile, the Company will seek to agree appropriate escalation formulae or cost plus agreements with customers to help mitigate this. The other significant trading uncertainty is the timing of major new build projects. Particularly in western markets we are currently seeing delays and uncertainty over when projects due to the continuing economic uncertainties and environmental issues, and this has been increased further by the Brexit vote in June 2016. The Company addresses this by having a portfolio of projects being bid for at any time; and seeking both product and geographical expansion to mitigate the impact of investment decisions and changes within specific countries and sectors. The directors have considered the potential future impact of Brexit in their management of the financial and commercial risk of the Company and have managed their risk accordingly.

In respect of foreign currencies, the Company's policy is to hedge significant exposure to movements in exchange rates primarily through the use of the forward market. These hedges are made primarily to cover foreign currency cash flows on projects. No trading or speculation in financial instruments is undertaken.

Details of the Company's management of credit risk and liquidity risk can be found in note 12.4 of the financial statements. With regard to the recognition of the pension scheme position, the Company is exposed to the performance of the assets invested in equities and bonds, movements in bond rates and other actuarial assumptions. These can vary significantly over time. To manage these risks the Company has taken a number of actions over the previous years including increasing contributions and closing the defined benefit scheme to new entrants and to future accruals. There is an investment sub-committee jointly appointed by the Company and Pension Trustees in addition to the financial advisers appointed by the Trustees who aim to optimise the performance of the scheme's assets.

The major uncertainty relating to ongoing contracts is the difficulty in assessing the final financial outcome and stage of completion of contracts recognised on a long term contract accounting basis. The Company seeks to mitigate this uncertainty by regularly assessing the forecasted position on a contract by contract basis to confirm that they still reflect a best estimate of expected costs to complete.

Approved by the board of directors and signed on behalf of the directors on 27 June 2017.

Suk Joo Kang
Director
Registered Office:-
Doosan House
Crawley Business Quarter
Manor Royal
Crawley
West Sussex RH10 9AD
Registered in England No. 00839354

Directors' report
For the year ended 31 December 2016

The Directors present the annual report on the affairs of the Company, together with the audited financial statements and auditor's report, for the year ended 31 December 2016.

Principal activities

The principal activities of the Company are associated with providing high value-added energy services, innovative technology-led business solutions and new build power plants to the power generation industry and associated markets.

Results and dividends

The net loss after taxation was £19,395,000 (2015: £7,615,000 loss). For the year ended 31 December 2016 no dividends were declared.

The Company's net assets at 31 December 2016 are £397,491,000 (2015: £456,184,000).

Directors

The following persons served as directors during the year and up to the date of signing the financial statements:

Andrew Hunt	(resigned 2 February 2017)
Andrew Adam Colquhoun	(appointed 2 February 2017)
Suk Joo Kang	(appointed 6 February 2017)
Jun Ho Hyun	(resigned 1 December 2016)
Kwang Seob Jung	(resigned 6 February 2017)
Byoung Man Kim	(appointed 23 January 2015)
Myong Dong Ryu	(resigned 1 October 2016)
Jin Won Mok	(appointed 5 January 2017)

Research and development

The Company is engaged in high technology markets and recognises the need for the continued improvement and development of its products relative to market requirements.

Total expenditure for research and development for the year amounted to £12,084,000 (2015: £17,205,000) of which £1,448,000 (2015: £2,102,000) was not funded by a third party and £10,636,000 (2015: £15,103,000) was funded by grants.

£1,698,000 (2015: £3,304,000) of development expenditure was capitalised during the year.

Disabled employees

The policy and practice of the Company is to seek to encourage and assist the employment of disabled persons, subject to their ability to perform the duties of the job without exposing themselves or other employees to abnormal risk. The training, career development and promotion of disabled persons is similarly encouraged and assisted. Arrangements are made wherever possible for retraining employees who become disabled to enable them to perform work identified as appropriate to their aptitudes and abilities.

Employee involvement

The Company's employment policies are designed to meet local conditions and requirements. The Board acknowledges the need to encourage employee involvement in the improvement of the Company's performance by supplying information on matters of concern through regular consultation with employees and by participation of employees in joint problem solving activities.

Information is provided by various means including briefing groups, audio/visual presentations, the Company's intranet and other publications.

In the Company, joint consultative committees are in operation, which provide an effective means of consultation with employees on a wide range of issues.

Directors' Indemnities

The Company has made no qualifying third party indemnity provisions for the benefit of its directors.

Directors' report (continued)
For the year ended 31 December 2016

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 Business Review on page 2. The financial position of the Company and liquidity position are described in the Strategic Report on page 2. The principal risks and uncertainties faced by the Company are set out in the Strategic Report on page 3. In addition, note 12 to the financial statements include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The Company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Company will meet the scheduled repayments and will be able to operate within the limits of applicable banking covenants to be complied with for a period of at least 12 months from the date of signing these financial statements.

The Directors have an expectation that based on the current funding position, size of the current order book and the business projections, that the Company has adequate resources to continue in operational existence for the foreseeable future despite the current uncertain economic climate. Subsequent to the restructuring undertaken in 2016 the Directors believe the business to be in a position to return to profitability and cash generation in 2017. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Disclosure of information to the auditor

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

Auditor

In accordance with Section 487 of the Companies Act 2006, a resolution for the reappointment of Deloitte LLP as auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

Approved by the board of directors and signed on behalf of the directors on 27 June 2017.

Suk Joo Kang
Director
Registered Office:-
Doosan House
Crawley Business Quarter
Manor Royal
Crawley
West Sussex RH10 9AD
Registered in England No. 00839354

Directors' responsibilities statement

For the year ended 31 December 2016

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

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 also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DOOSAN BABCOCK LIMITED

We have audited the financial statements of Doosan Babcock Limited for the year ended 31 December 2016 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Cash Flow Statement, the Statement of Changes in Equity and the related notes 1 to 27. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

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

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us 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.

Robert Knight, FCA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Statutory auditor
Crawley, United Kingdom
27 June 2017

Income statement

For the year ended 31 December 2016

	Note	2016 £000	2015 £000
Revenue	4	389,037	457,496
Cost of sales		(371,608)	(423,660)
Gross profit		17,429	33,836
Administrative expenses		(51,158)	(38,194)
Operating loss	5	(33,729)	(4,358)
Loss on disposal of property, plant and equipment		(7)	(1)
Other non-operating expenses		(361)	-
Impairment of investments	11	(314)	(414)
Net finance income / (cost)	7	11,357	(916)
Loss before tax		(23,054)	(5,689)
Taxation	8.2	3,659	(1,926)
Loss for the year		(19,395)	(7,615)

The notes on pages 12 – 44 form part of the financial statements.

All revenue and losses arose from continuing operations.

Statement of other comprehensive income

For the year ended 31 December 2016

	Note	2016 £000	2015 £000
Loss for the year		(19,395)	(7,615)
Items that will not be reclassified subsequently to profit or loss:			
Actuarial movement in retirement obligations	6.3/ 8.3	(46,559)	12,303
Income tax relating to items not reclassified to the income statement	6.3/ 8.3	7,261	(3,692)
		(39,298)	8,611
Other comprehensive (expense) / income for the year net of tax		(39,298)	8,611
Total comprehensive (expense) / income for the year		(58,693)	996

Statement of financial position

As at 31 December 2016

	Note	2016 £000	2015 £000
Non-current assets			
Intangible assets – goodwill	9	595	595
– other	9	18,423	21,779
Property, plant and equipment	10	8,885	10,423
Investments in subsidiaries	11	1,060	1,385
Deferred tax assets	17	30,527	19,859
Derivative financial instruments	12.2	224	-
		59,714	54,041
Current assets			
Inventories	13	1,371	2,831
Trade and other receivables	14	559,907	591,590
Amounts due from customers for contract work	24	49,032	50,114
Derivative financial instruments	12.2	425	29
Cash and cash equivalents		4,026	25,865
		614,761	670,429
Total assets		674,475	724,470
Current liabilities			
Trade and other payables	15	(132,900)	(167,829)
Amounts due to customers for contract work	24	(21,339)	(26,836)
Derivative financial instruments	12.2	(150)	(1,626)
Provisions	16	(8,834)	(4,200)
Current tax liabilities		(2,033)	(2,987)
		(165,256)	(203,478)
Net current assets		449,505	466,951
Non-current liabilities			
Derivative financial instruments	12.2	(65)	(194)
Provisions	16	(8,736)	(4,476)
Retirement benefit obligations	6.3	(102,927)	(60,138)
		(111,728)	(64,808)
Total liabilities		(276,984)	(268,286)
Net assets		397,491	456,184
Equity			
Called up share capital	18	261,957	261,957
Other reserves		973	973
Retained earnings	19	134,561	193,254
Total equity		397,491	456,184

The notes on pages 12 – 44 form part of the financial statements.

The financial statements of Doosan Babcock Limited, (registration number 00839354) were approved and authorised for issue by the Board of Directors on 27 June 2017.

Signed on behalf of the Board of Directors.

Suk Joo Kang
Director

Statement of changes in equity

For the year ended 31 December 2016

	Called up share capital £000	Revaluation reserve £000	Retained earnings £000	Total £000
At 1 January 2015	261,957	973	192,258	455,188
Loss for the year	-	-	(7,615)	(7,615)
Other comprehensive income for the year	-	-	8,611	8,611
Total comprehensive income for the year	-	-	996	996
At 1 January 2016	261,957	973	193,254	456,184
Loss for the year	-	-	(19,395)	(19,395)
Other comprehensive expense for the year	-	-	(39,298)	(39,298)
Total comprehensive expense for the year	-	-	(58,693)	(58,693)
At 31 December 2016	261,957	973	134,561	397,491

Cash flow statement

For the year ended 31 December 2016

	Note	2016 £000	2015 £000
Cash flow used in operations	20	(31,921)	(20,471)
Income tax paid		(703)	(384)
Net cash used in operations		(32,624)	(20,855)
Cash flows from investing activities			
Purchase of property, plant and equipment		(1,355)	(2,083)
Purchase of intangible assets		(1,773)	(3,771)
Disposal of property, plant and equipment		-	-
Loans to parent company		(4,267)	-
Repayment from parent company		67,000	-
Investment in subsidiaries		-	(799)
Net cash received from / (used in) investing activities		59,605	(6,653)
Cash flows from financing activities			
Interest paid		(3,956)	(5,081)
Bank loans granted		85,000	30,000
Loan repaid by parent company		(46,022)	140,000
Repayment of bank loans		(85,000)	(137,343)
Maturity of foreign exchange hedges		1,174	(11,565)
Net cash generated from financing activities		(48,804)	16,011
Net decrease in cash and cash equivalents		(21,823)	(11,497)
Effects of exchange rate changes		(16)	(28)
Cash and cash equivalents at the beginning of the year		25,865	37,390
Cash and cash equivalents at the end of the year		4,026	25,865

Notes to the financial statements

For the year ended 31 December 2016

1. General information

Doosan Babcock Limited is a Company incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on page 1. These financial statements are presented in Pounds Sterling because that is the currency of the primary economic environment in which the Company operates.

2. Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and the preceding year, are set out below.

2.1. Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments and property. Historical cost is generally based on the fair value of the consideration given in exchange for the assets. The principal accounting policies adopted are set out below.

The Directors are of the opinion that the consolidated financial statements of Doosan Power Systems S.A. are equivalent to financial statements drawn up in accordance with relevant EU directives and therefore entitle the Company not to produce consolidated financial statements.

2.2. Going concern

The Company's business activities are associated with providing high value-added energy services, innovative technology-led business solutions and new build power plant to the power generation industry and associated markets.

The energy industry is experiencing a period of rapid market evolution, with the movement away from coal to other sources of energy. A combination of this evolution and investment uncertainty following the United Kingdom's vote in June 2016 to leave the European Union ("Brexit"), has led to 2016 being a challenging year for the Company. This is reflected in the trading performance of the Company which secured order intake of £414,099,000 down 18.4% on 2015 (£507,181,000). Revenues for the year were £389,037,000 compared to £457,496,000 in 2015, caused by the timing of project awards in 2016 following volume peaks on projects in 2015.

Operating loss was £33,729,000 compared to an operating loss of £4,358,000 in 2015. The operating loss includes the recognition of restructuring costs totalling £9,134,000 in 2016 (2015: £5,690,000) as the Company undertakes a process to adapt to the evolving energy industry and ensure it is well placed to capitalise on future opportunities. After an impairment charge of £314,000 (2015: £414,000), exchange gains of £5,710,000 (2015: exchange losses £8,524,000), other net finance income of £5,647,000 (2015: £7,608,000) and income tax credit of £3,659,000 (2015: £1,926,000 expense) the loss after tax was £19,395,000 compared to £7,615,000 in 2015.

The Company's year-end cash position has decreased with a balance at 31 December 2016 of £4,026,000 (2015: £25,865,000) and net assets of £397,491,000 (2015: £456,184,000)

Managing risk is seen as a key attribute of the Company, with a focus on quality in everything we do. The backbone of our business is our people who we make significant efforts to train and develop through our many accredited programmes to ensure that they are amongst the best in their respective fields.

The major uncertainties in terms of trading in the current market are the fluctuations in raw material and supplier costs, especially on key contracts. Reflecting this situation where a position is particularly volatile, the Company will seek to agree appropriate escalation formulae or cost plus agreements with customers to help mitigate this. The other significant trading uncertainty is the timing of major new build projects. Particularly in western markets we are currently seeing delays over when projects will be released due to investment and environmental issues. The Company addresses this by having a portfolio of large projects being bid at any time; additionally we are protected by the balance of our business with both service and projects workload.

In respect of foreign currencies, the Company's policy is to hedge all significant exposure to movements in exchange rates primarily through the use of the forward market. No trading or speculation in financial instruments is undertaken.

With regard to the recognition of the pension scheme position, the Company is exposed to the performance of the assets invested in equities and bonds as well as the impact on liabilities of movements in bond rates and other actuarial assumptions which can vary significantly over time. To tackle these risks the Company has taken a number of actions over the previous years including increasing contributions and closing the defined benefit scheme to new entrants and to future accruals. There is an investment sub-committee jointly appointed by the Company and Pension Trustees in addition to the financial advisers appointed by the Trustees who aim to optimise the performance of the scheme's assets.

In addition, note 12 to the financial statements include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

Notes to the financial statements (continued)
For the year ended 31 December 2016

2. Accounting policies (continued)
2.2. Going concern (continued)

The Company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Company will meet the scheduled repayments and will be able to operate within the limits of the banking covenants for a period of at least 12 months from the date of approval of these financial statements.

The Directors have a strong expectation based on the strong cash position, size of the current order book and the business projections that the Company and the Company have adequate resources to continue in operational existence for the foreseeable future. The current year has suffered additional losses on certain large contracts which have made this a difficult year. They are not expected to recur in future years. Subsequent to the restructuring undertaken in 2016 the Directors believe the business to be in a position to return to profitability and cash generation in 2017. An assessment of future performance has been made based on the five year plan and applying sensitivity analysis reducing turnover by up to 15%. This still shows a positive cash flow every year over the next 5 years. Thus the Directors continue to adopt the going concern basis of accounting in preparing the annual financial statements.

2.3. Investments in subsidiaries, joint ventures and associates

Investments are stated at cost less any provisions for impairment. Investments are reviewed at each balance sheet date to determine whether there is an indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the Income Statement.

On disposal of investments, the difference between disposal proceeds and the carrying amount of investment are recognised in the income statement.

2.4. Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired. Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the entity over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of the impairment review, goodwill is allocated to each of the Company's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

2.5. Intangible assets

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the Company's product development is recognised only if all of the following conditions are met:

- an asset is created that can be identified (such as technology which can be used in a product);
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

Internally-generated intangible assets are amortised on a straight-line basis over their useful lives. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Software is treated as an intangible asset.

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses.

The expected depreciation rates are:

Goodwill	nil (note 2.4)
Deferred development expenditure	20% to 50%
Software	16% to 33⅓%

Amortisation of intangible assets is charged to operating profit in the income statement.

Notes to the financial statements (continued)

For the year ended 31 December 2016

2. Accounting policies (continued)

2.6. Property, plant and equipment

Freehold properties, plant, machinery and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Properties in the course of construction for production, supply or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, any borrowing costs associated with financing the assets, if applicable. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

The gain or loss arising on the disposal or scrappage of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

The Company chooses to perform a regular independent review every 2 years of the value of land assets in order to assess whether a revaluation is required. This ensures that the carrying amount of these assets does not differ materially from their fair value.

Depreciation is charged on cost on a straight-line basis at rates appropriate to the expected useful lives of the assets concerned. Freehold land and assets in the course of construction are not depreciated.

The expected depreciation rates are:

Land and buildings	
Freehold land	Not depreciated
Freehold and leasehold buildings	2% to 12½%
Plant and equipment	
Heavy production	3% to 10%
Other plant and machinery	3% to 33⅓%
Motor vehicles	12½% to 25%
Office equipment and furniture	8% to 33⅓%
Computers	20% to 33⅓%

2.7. Government grants

Government grants are not recognised until there is reasonable assurance that the Company will comply with the conditions attached to them and that the grants will be received.

Capital-based government grants are credited to the assets to which they relate, with the net amount then being released to the income statement as depreciation.

Grants and funding of a revenue nature are netted against the expenses to which they relate. Recognition of the funding income is realised at the same rate as expenditure with any advance receipts of such funding being kept as deferred income. If the development to which this relates meets the criteria for capitalisation then the net cost is capitalised.

2.8. Inventory

Inventories are stated at the lower of cost and net realisable value. An inventory provision is booked to state inventory at net realisable value where the realisable value from sale of the inventory is estimated to be lower than the inventory carrying value.

Costs comprise direct materials, and in the case of work-in-progress, direct labour and overheads, including depreciation, but excludes selling and administration costs.

Raw materials and consumables are stated using the weighted average cost method.

2.9. Leasing and hire purchase commitments

Hire charges paid under operating leases are charged to the income statement on a straight-line basis over the term of the lease.

2.10. Provisions

A provision is recognised in the statement of financial position if, as a result of a past event, there is a present legal or constructive obligation that can be measured reliably and it is probable that an outflow of economic benefits will be required to settle the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. Provisions for the expected cost of warranty obligations under local sale of goods legislation are recognised at the date of sale of the relevant products, at the Directors' best estimate of the expenditure required to settle the Company's obligation.

Notes to the financial statements (continued)

For the year ended 31 December 2016

2. Accounting policies (continued)

2.10. Provisions (continued)

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Company has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from it.

2.11. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, Value Added Tax ('VAT') and other sales-related taxes.

2.11.a. Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date. This is normally measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable. Claims for extensions of time are recognised only to the extent that they are in advanced stages of negotiation, are not subject to on-going formal dispute procedures and their receipt is considered probable

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred where it is probable they will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised in the income statement immediately.

Where the amounts recognised in revenue exceed the amounts invoiced to the customer, the balance is included within 'amounts due from contract customers in respect to project work' within the statement of financial position.

Where the amounts recognised in revenue are less than the amounts invoiced to the customer, the balance is included within 'amounts due to contract customers in respect to project work' within the statement of financial position.

2.11.b. Sales (other than project sales) of goods and services at invoiced value

The revenue is recognised at the point at which the Company has transferred to the buyer the significant risks and rewards of ownership of the goods and services.

2.11.c. Fees for technical and other services rendered

Fees for technical services provided to third parties and the Parent company are recognised at the point at which the knowledge is transferred to the recipient. In the case of aid provided to the Parent company, this happens at the point at which the contract to which the aid relates is awarded to the Parent company. At this point any further support provided by the Company to the Parent is minimal and therefore revenue is recognised on the basis that the Company has substantially performed its obligated service to the Parent company. In the case of third parties, continuing support usually needs to be provided and so the revenue is instead recognised over the life of the project for which the aid has been provided.

2.12. Taxation

The tax charge comprises current tax and deferred tax, calculated using tax rates that have been enacted or substantively enacted by the reporting date. Current tax and deferred tax are charged or credited to the income statement, except when they relate to items charged or credited directly to equity, in which case the relevant tax is also reflected in equity. Current tax is based on the result for the year.

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

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

Notes to the financial statements (continued)
For the year ended 31 December 2016

2. Accounting policies (continued)

2.13. Pension costs

Defined benefit scheme
The Company operates pension schemes providing benefits based on final pensionable pay. The assets of the UK scheme are held separately from those of the Company. Contributions are based on periodic actuarial calculations and are charged so as to spread the cost of the pensions over the expected service lives of the employees who are members of the scheme. The 'Doosan Power Systems Limited' scheme was closed to new members on 31 March 2001. In April 2014 the UK defined benefit scheme was closed for future accruals.

Pension scheme assets are measured using fair value. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside of the income statement and presented in other comprehensive income.

Past service cost is recognised when any plan amendment or curtailment occurs to the extent that the benefits are already vested or is otherwise amortised on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the scheme.

Defined contribution scheme
The Company also operates defined contribution pension schemes. The assets of the scheme are held separately from those of the Company in an independently administered fund. The amounts charged against profit represent the contributions payable to the scheme in respect of the accounting period.

2.14. Operating profit

Operating profit is stated after charging restructuring costs, the share of results of associates and impairments but before gains on the disposal of investments, property, plant and equipment and finance costs.

2.15. Financial instruments

2.15.a.Derivatives

The Company uses derivative financial instruments to tackle interest rate risk and hedge exposures to fluctuations in foreign currencies in accordance with its risk management policies. Commodity risk is managed through escalation clauses in customer contracts. A description of the Company's objectives, policies and strategies with regard to derivatives and other financial instruments is set out in note 12.

Derivatives are initially recognised in the statement of financial position at fair value on the date the derivative transaction is entered into and are subsequently re measured at fair value.

2.15.b. Financial assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories, financial assets, cash and cash equivalents or 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Liquid resources and cash
Liquid resources comprise short-term treasury deposits which have maturity dates of up to one year, government securities and money market funds. Cash and cash equivalents comprises cash in hand and overnight deposits less, for the purpose of the cash flow statement only, overdrafts.

Loans and receivables
Trade receivables, loans and other receivables are non-derivative financial assets that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest method, less any impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

The effective interest rate amortisation is included in finance income in the income statement. The losses arising from impairment are recognised in the income statement in finance costs. Loans will be tested for impairment at each period end to determine if any impairment exists.

Derecognition of financial assets
The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its

Notes to the financial statements (continued)
For the year ended 31 December 2016

2. Accounting policies (continued)

2.15. Financial instruments (continued)

2.15.b. Financial assets (continued)
retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

2.15.c. Financial liabilities

Financial liabilities within the scope of IAS 39 are classified as loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of borrowings, carried at amortised cost. This includes directly attributable transaction costs.

The Company's financial liabilities include trade and other payables, borrowings and derivative financial instruments.

Loans and borrowings
Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to the income statement on an accruals basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade and other payables
Trade payables are not interest bearing and are stated at their fair value. Amounts due to customers for contract work relate to advances received from customers on contracts which are in progress.

2.15.d. Foreign currencies

The financial statements of the Company are presented in Pounds Sterling.

In preparing the financial statements, transactions in currencies other than Pound Sterling are recognised at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences on transactions entered into in order to hedge certain foreign currency risks (see note 2.15.a above under financial instruments); and

- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

2.16. Fair value estimation

The fair value at initial cost of financial instruments traded in active markets (such as publicly traded derivatives or trading and available-for-sale securities) is based on quoted market prices at the reporting date. The quoted market price used for traded financial assets held by the Company is the current bid price. The appropriate quoted market price for traded financial liabilities is the current offer price. The fair value of forward foreign exchange contracts is determined by measuring the difference between the exchange rate at the reporting date and the forward exchange rate per the contract. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses a variety of methods which include the use of recent arm's-length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models which reflect the specific instrument.

Where market values are not available, fair values are based on valuation methodologies which require inputs and forecasts to be made. Judgement is required in determining the appropriate assumptions underlying those inputs and forecasts.

The nominal value of receivables (less estimated impairments) and payables are assumed to approximate their fair values. The fair value of financial liabilities measured at amortised cost is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments. Discounted cash flows are used to determine the fair value for the majority of remaining financial instruments.

2.17. Impairment of available for sale investments

At each reporting date, the Company reviews the carrying amounts of its available for sale investments to determine whether there is any indication that the carrying amount of those assets may not be recoverable. If any such indication exists, the recoverable amount of the asset is reviewed in order to determine the amount of the impairment, if any.

Notes to the financial statements (continued)

For the year ended 31 December 2016

2. Accounting policies (continued)

2.18 Adoption of new and revised standards

New and revised IFRSs in issue but not yet effective

At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRSs that have been issued but are not yet effective (and in some cases had not yet been adopted in the EU):

- IFRS 9 Financial Instruments – effective for accounting periods beginning on or after 1 January 2018
- IFRS 15 Revenue from Contracts with Customer – effective date deferred to accounting periods beginning on or after 1 January 2018
- IFRS 16 Leases – effective for accounting periods beginning on or after 1 January 2019*
- IFRIC 22 – Foreign Currency Transactions and Advance Consideration – New Interpretation - effective date deferred to accounting periods beginning on or after 1 January 2018*
- IAS 12 (Amendments) Recognition of Deferred Tax Assets for Unrealised Losses – effective for accounting periods beginning on or after 1 January 2017*
- IAS 7 (Amendments) Statement of Cash Flows Disclosure Initiative – effective for accounting periods beginning on or after 1 January 2017*
- IFRS 2 (Amendments) Classification and Measurement of Share-based Payment Transactions – effective for accounting periods beginning on or after 1 January 2018*
- Clarification to IFRS15 'Revenue from contracts with customers' – effective on or after 1 January 2018*
- Annual Improvements to IFRSs: 2014 – 2016 Cycle – effective for accounting periods on or after 1 January 2017 or 1 January 2018 depending on the standard*

*Not yet endorsed for use in the European Union.

The directors of the Company do not anticipate that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods, with the exception of those discussed below.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 is a new standard which creates a single model for revenue recognition from contracts with customers. Under IFRS 15 revenue is allocated to performance obligations identified within the contract and revenue is recognised for each obligation once it is completed. The standard has been introduced to promote greater consistency and comparability across industries and capital markets. The new standard is effective for annual periods beginning on or after 1 January 2018. An assessment to ascertain the impact of the standard on the Company's financial statements is yet to be performed.

IFRS 16 Leases

IFRS 16 has established principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. Under IFRS 16 significant changes are introduced to lessee accounting, with the distinction between operating and finance leases removed and assets and liabilities recognised in respect of all leases (subject to limited exceptions for short term leases and leases of low value assets).

The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If the rate cannot be readily determined, the lessee will use their incremental borrowing rate. Subject to EU endorsement, IFRS16 would apply for annual reporting periods beginning on or after 1 January 2019. An assessment of the impact of the standard on the Company's financial statements is yet to be performed.

IFRS 9 Financial Instruments

IFRS 9 is effective for annual periods beginning on or after 1 January 2018. The application of IFRS 9 may change the measurement and presentation of financial instruments, depending on their contractual cash flows and the business model under which they are held. The impairment requirements will generally result in earlier recognition of credit losses. The new hedging model may lead to more economic hedging strategies meeting the requirements for hedge accounting. Assessments of the impact of the standard on the Company's and financial statements are yet to be performed.

Notes to the financial statements (continued)

For the year ended 31 December 2016

3. Critical accounting judgements and key sources of estimation of uncertainty

In the application of the Company's accounting policies, which are described in note 2, 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 affects both current and future periods.

Key sources of estimation uncertainty

The major uncertainty relating to ongoing contracts is the difficulty in assessing the final financial outcome and stage of completion of contracts recognised on a long term contract accounting basis.

The Company seeks to mitigate this uncertainty by regularly assessing the forecasted position on a contract by contract basis to confirm that they still reflect a best estimate of expected costs to complete.

Critical judgements in applying the Company's accounting policies

The following are the critical judgements that the Directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

3.1. Revenue and margin recognition

The Company's revenue recognition and margin recognition policies, which are set out in note 2.11 are central to how the Company values the work it has carried out in the financial year. These policies require forecasts to be made of the outcomes of long-term construction services which require assessments and judgements to be made on recovery of pre-contract costs, changes in work scopes, contract programmes, maintenance liabilities, potential liquidated damages and changes in costs including costs to complete.

3.2. Retirement benefit obligations

Details of the Company's defined benefit schemes are set out in note 6.3, including a table showing the sensitivity of the pension scheme obligations and the prospective 2016 charge to the income statement to different actuarial assumptions. At 31 December 2016 the defined benefit liability recognised on the Company's statement of financial position was £102,927,000 (2015: £60,138,000). Effects of changes in the actuarial assumptions underlying the benefit obligation, discount rates and the differences between expected and actual returns on the scheme's assets are classified as actuarial gains and losses. During 2016 the Company recognised net actuarial losses of £46,559,000 (2015: £12,30,000 gains) in equity. A sensitivity analysis in respect of these is set out in note 6.3.

3.3. Taxation

The Company provides for liabilities in respect of uncertain tax positions where additional tax may become payable in future periods and such provisions are based on management's assessment of exposures. The Company also recognises assets where a reduction in future tax or a future receipt of tax may crystallise, when it is deemed prudent to recognise such an asset based on management's assessment of such events.

3.4. Long term provisions

Other provisions include an amount of £8,386,000 (2015: £4,146,000) relating to potential claims for which the Company may be liable together with related legal costs. Due to the nature of these claims, it is not possible to predict precisely when these provisions will be utilised, but it is anticipated that, in the majority of cases, it would be in the medium term.

4. Revenue

Revenue by origin

	2016 £000	2015 £000
Revenue from construction contracts and related services	389,037	457,496

All revenue in the Company originates from the United Kingdom

5. Operating loss

5.1. Operating loss is stated after charging / (crediting)

	2016 £000	2015 £000
Property, plant and equipment:		
Depreciation of owned assets	2,883	3,593
Intangible assets:		
Amortisation of software	3,001	4,630
Deferred development expenditure	2,128	-
Rentals under operating leases:		
Land and buildings	5,922	4,247
Hire of plant and machinery	2,081	2,000
Research and development:		
Revenue expenditure	12,084	17,205
Grants received to fund revenue expenditure	(10,636)	(15,103)
Development capitalised	1,697	-
Restructuring costs	9,134	5,690
Exchange (gains)/losses	(5,710)	8,144

5.2. Auditor's remuneration

	2016 £000	2015 £000
Audit of these financial statements	355	340
Services relating to taxation	519	120
Other	6	57
Total non-audit services	525	177

Notes to the financial statements (continued)

For the year ended 31 December 2016

6. Employees and directors

6.1. Employee numbers and staff costs

	2016	2015
Average monthly number of persons employed during the year (including directors employed):		
Production	3,002	3,491
Sales and administration	371	217
Research and development	109	101
	3,482	3,809

	2016 £000	2015 £000
Staff costs during the year (Including directors employed):		
Wages and salaries	177,919	187,109
Social security costs	18,362	18,849
Other pension costs	5,592	7,425
	201,873	213,383

6.2. Remuneration of directors

	2016 £000	2015 £000
Directors' emoluments:		
Current pay and benefits	756	1,010
Post-employment benefits	34	38
Social security costs	27	25
	817	1,073

The aggregate emoluments of the highest paid Director were £469,349 (2015: £379,189). There were £nil (2015: £nil) assets recoverable under long term incentive schemes of the highest paid director.

Since the Directors of the Company are also the key management personnel of the Company no additional information is required to be disclosed by IAS 24 in addition to the information already disclosed above.

Notes to the financial statements (continued)

For the year ended 31 December 2016

6. Employees and directors (continued)

6.3. Post-retirement benefits

The Company operates two defined contribution schemes, a Company Personal Pension Plan and a Stakeholder Plan. The charge for the year in respect of these schemes was £4,715,000 (2015: £5,044,000) at the year end.

The Company operates a defined benefit pension scheme (the 'scheme'), providing benefits based on final pensionable pay. The Scheme was closed to future benefit accrual with effect from 1 April 2014, with active members becoming deferred with a preserved pension in the Scheme based on their Pensionable Service and Final Pensionable Salary as at this date.

The assets of the scheme are invested by an independent trustee.

The scheme is an HMRC registered pension scheme and is subject to standard UK pensions and tax law. This means that the payment of contributions and benefits are subject to the appropriate tax treatments and restrictions and the scheme is subject to the scheme funding requirements outlined in section 224 of the Pensions Act 2004.

In accordance with UK trust and pensions law, the scheme has appointed trustees who are independent of the Company. Although the Company bears the financial cost of the scheme, the responsibility for the management and governance of the scheme lies with the trustees, who have a duty to act in the best interest of members at all time.

The main risks to which the Company is exposed in relation to the funded pension scheme are:

• Mortality risk - the assumptions adopted by the Company make allowance for the future improvements in life expectancy. However, if life expectancy improves at a faster rate than assumed, this would result in higher payments from the scheme and consequently increases the scheme's liabilities. The Company and the scheme's trustees review the mortality assumption on a regular basis to minimise the risk of using an inappropriate mortality assumption.

• Investment risk - the scheme invests its assets in a portfolio of asset classes including diversified growth funds, corporate bonds and government bonds. There is the possibility that the returns generated by the portfolio of assets falls below the assumed rates of return.

• Yield risk - a fall in bond yields will increase both the scheme's liabilities, and to a lesser extent, the scheme's assets. As the scheme's liabilities (on the funding basis used to calculate the Company's contributions to the scheme) are greater than its assets until the deficit is made good, during that time the liabilities may grow by more in monetary terms, thus increasing the deficit in the scheme.

• Inflation risk - Benefits in the scheme accrued increase in line with inflation (subject to the relevant caps and floors), and so if inflation is greater than expected, the liabilities will increase.

The results of the actuarial valuation of the scheme at 1 April 2013 have been updated to 31 December 2016 by a qualified actuary, using a set of assumptions consistent with those required under IAS 19 (revised). The effect of the scheme's investment policy is not fully reflected in the accounting figures as the assumptions used for the purpose of the valuation under IAS 19 (revised) are different from those used for the funding valuation.

Notes to the financial statements (continued)

For the year ended 31 December 2016

6. Employees and directors (continued)

6.3. Post-retirement benefits (continued)

The major assumptions used by the actuary were:

	2016	2015
Financial assumptions:		
Discount rate	2.70%	3.90%
Rate of increase in pensionable salaries	N/A	N/A
Rate of increase in pensions in payment (post-May 2002 service)	3.05%	2.95%
Rate of increase in pensions in payment (pre-May 2002 service)	3.70%	3.60%
Inflation assumption (and increases to pension in deferment)	3.20%	3.05%
Demographic assumptions:		
Pre-retirement mortality (male/female)	99%/109% S1NA/S1NFA, CMI 2015 +1.25% MI	99%/109% S1NA/S1NFA, CMI 2015 +1.25% MI
Post-retirement mortality for non-pensioner members (male/female)	99%/109% S1NA/S1NFA, CMI 2015 +1.25% MI	99%/109% S1NA/S1NFA, CMI 2015 +1.25% MI
Post-retirement mortality for pensioner members (male/female)	99%/109% S1NA/S1NFA, CMI 2015 +1.25% MI	99%/109% S1NA/S1NFA, CMI 20154 +1.25% MI

The rates used have been chosen from a range of possible amounts determined using actuarial assumptions that due to the timescale covered may not necessarily be borne out in practice. The assets in the scheme were:

	2016		2015	
	%	£000	%	£000
Diversified growth fund				
Barings	11.7	47,501	12.7	44,590
Insight BOF	10.8	44,216	12.1	42,294
Pyrford	11.1	45,237	11.8	41,201
Baillie Gifford	11.8	48,249	13.0	45,274
Bonds				
RLAM	12.3	50,179	14.2	49,436
Babson Capital	12.0	49,125	12.8	44,747
Insight LDI	15.5	63,349	15.2	52,987
Mercury Private Equity Fund	-	-	4.0	13,988
PIMCO	-	-	-	-
Insight liquidity plus	0.4	1,507	-	-
Insight Libor	3.2	13,223	-	-
Cash				
Trustee bank account	8.0	32,550	0.5	1,778
Other	3.2	12,900	3.7	12,900
Total market value of assets		408,036		349,195
Present value of liabilities		(510,963)		(409,333)
Deficit in scheme		(102,927)		(60,138)
Related deferred tax asset		17,878		10,825
Net pension liability		(85,049)		(49,313)

Notes to the financial statements (continued)

For the year ended 31 December 2016

6. Employees and directors (continued)

6.3. Post-retirement benefits (continued)

Sensitivity analysis

Inflation rate and discount rate are considered by the Directors to be the significant assumptions within the scheme, and as such, effects of changes to these have been disclosed below. A movement of +/- 25 bps on the discount rate and inflation assumptions reflects a realistic shift in market conditions over the short-term, whilst providing sufficient information about the sensitivity of the value of the Scheme's liabilities to these assumptions.

Effect on the deficit in the scheme of the following changes:	£m
0.25% increase in the discount rate	-20.5
0.25% decrease in the discount rate	+21.8
0.25% increase in the inflation rate	+10.3
0.25% decrease in the inflation rate	-10.0

Reconciliation of present value of plan liabilities and assets:

	2016 £000	2015 £000
Change in the present value of the defined benefit obligation:		
Opening defined benefit obligation	409,333	435,493
Interest cost	15,550	15,620
Employees' contributions	-	-
Actuarial (gains)/losses	107,506	(26,530)
Benefits paid	(21,426)	(15,250)
Closing defined benefit obligation	510,963	409,333
Change in the fair value of plan assets:		
Opening fair value of plan assets	349,195	361,547
Interest income	13,321	12,995
Actuarial (losses)/gains	60,947	(14,227)
Contributions by employer	6,875	5,000
Benefits paid	(21,426)	(15,250)
Other expenses	(876)	(870)
Closing fair value of plan assets	408,036	349,195

Notes to the financial statements (continued)

For the year ended 31 December 2016

6. Employees and directors (continued)

6.3. Post-retirement benefits (continued)

	2016 £000	2015 £000
Net change in the present value of plan liabilities and assets:		
Opening deficit	60,138	73,946
Service cost	-	-
Net interest expense	2,229	2,625
Net actuarial (gains)/losses	46,559	(12,303)
Contributions by employer	(6,875)	(5,000)
Administrative expenses	876	870
Closing deficit	102,927	60,138

The expected contributions in 2017 are £9,375,000 (2016: £6,875,000).

Analysis of other comprehensive income:

	2016 £000	2015 £000
Actual return less expected return on scheme assets	60,947	(14,227)
Experience losses arising on the scheme liabilities	(3,401)	5,518
Changes in assumptions underlying the scheme liabilities	(104,105)	21,012
Net actuarial gains/(loss) recognised in the period	(46,559)	12,303
Deferred tax	7,261	(3,693)
Actuarial gain/(loss) net of tax	(39,298)	8,610
Net cumulative actuarial losses after tax	(127,060)	(87,762)

Expense recognised in the income statement:

	2016 £000	2015 £000
Current service cost	-	-
Net interest expense	2,229	2,625
Administrative expenses	876	870
Total	3,105	3,495

The following items were recognised in administrative expenses in the income statement:

	2016 £000	2015 £000
Service cost	-	-
Administrative expenses	876	870
Total	876	870

Notes to the financial statements (continued)
For the year ended 31 December 2016

6. Employees and directors (continued)

6.3. Post-retirement benefits (continued)

The history of experience gains and losses is as follows;

	2016	2015	2014	2013	2012
Defined benefit obligation (£m)	(510.9)	(409.3)	(435.4)	(372.7)	(339.6)
Plan assets (£m)	408.0	349.2	361.5	321.1	312.1
Deficit (£m)	(102.9)	(60.1)	(73.9)	(51.6)	(27.5)
Difference between the expected and the actual return on scheme assets					
Amount (£m)	60.9	(14.2)	25.9	0.6	1.0
Percentage of scheme assets	(15%)	(4%)	7%	0%	0%
Experience gains/(losses) on scheme liabilities					
Amount (£m)	(3.4)	5.5	-	(6.9)	-
Percentage of present value scheme liabilities	(1%)	1%	0%	(2%)	0%
Total gains/(losses) recognised in statement of comprehensive income					
Amount (£m)	(46.6)	12.3	(28.4)	(24.4)	(17.8)
Percentage of present value of scheme liabilities	(9%)	3%	(7%)	(7%)	(5%)

7. Finance income and costs

	2016 £000	2015 £000
Interest receivable and similar income	15,077	15,799
Foreign exchange gains	5,710	980
Total finance income	20,787	16,779
Interest payable	(3,601)	(4,966)
Unwinding of discounting	(3,600)	(600)
Net finance cost on defined benefit scheme	(2,229)	(2,625)
Foreign exchange losses	-	(9,504)
Total finance costs	(9,430)	(17,695)
Net finance income / (cost)	11,357	(916)

Notes to the financial statements (continued)

For the year ended 31 December 2016

8. Taxation

8.1. Taxation charge

	2016 £000	2015 £000
Current tax:		
UK Corporation tax at 20% (2015: 20.25%)	-	-
Adjustments in respect of prior periods	-	-
	-	-
Overseas taxation	(252)	1,056
Total current tax	(252)	1,056
Deferred tax:		
Origination and reversal of temporary differences	(3,996)	599
Deferred tax on pension charge	589	271
Total deferred tax (note17)	(3,407)	870
Total tax (credit) / charge for the year	(3,659)	1,926

8.2. Factors affecting tax charge for the year

The current tax assessed for the period is lower (2015: lower) than the standard rate of corporation tax in the UK of 20% (2015: 20.25%). The differences are explained below:

	2016 £000	2015 £000
Loss before tax	(23,054)	(5,689)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2015:20.25%)	(4,611)	(1,152)
Tax effect of expenses that are not deductible in determining taxable profit	419	-
Group relief	-	800
Difference between rate applied and deferred tax rate	-	(81)
Effect of reduction in deferred tax rate	1,089	48
Enhanced relief on research and development expenditure	-	1,056
Withholding taxes	(252)	325
Adjustment in respect of prior periods*	(304)	930
Tax (credit) / charge for year	(3,659)	1,926

Factors that may affect future tax charges

The income tax expense for the year is based on the effective United Kingdom statutory rate of corporation tax of 20% (2015: 20.25%).

The Finance Act 2016, which provides for reductions in the main rate of corporation tax from 20% to 19% effective from 1 April 2017 and to 17% effective from 1 April 2020, was substantively enacted on 6 September 2016. These rate reductions have been reflected in the calculation of deferred tax at the balance sheet date. The closing deferred tax balances (see note 17) as at 31 December 2016 have been calculated at 17% reflecting the tax rate at which the balances are expected to be utilised or reversed in future periods.

8.3. Tax recognised in other comprehensive income

	Before tax £000	Tax credit £000	After tax £000
2016			
Relating to actuarial movement in retirement benefit obligations	(46,559)	7,261	(39,298)
2015			
Relating to actuarial movement in retirement benefit obligations	12,303	(3,692)	8,611

Notes to the financial statements (continued)

For the year ended 31 December 2016

9. Intangible assets

	Goodwill £000	Deferred development expenditure £000	Software * £000	Total
Cost				
At 1 January 2015	971	6,447	27,999	35,417
Additions	-	3,585	186	3,771
Disposals	-	-	(337)	(337)
At 31 December 2015	971	10,032	27,848	38,851
Additions	-	1,698	75	1,773
Disposals	-	-	-	-
At 31 December 2016	971	11,730	27,923	40,624
Amortisation				
At 1 January 2015	376	-	11,808	12,184
Charge for the year			4,630	4,630
Disposals	-	-	(337)	(337)
At 31 December 2015	376	-	16,101	16,477
Charge for the year	-	2,128	3,001	5,129
Disposals	-	-	-	-
At 31 December 2016	376	2,128	19,102	21,606
Net book value at				
At 31 December 2015	595	10,032	11,747	22,374
31 December 2016	595	9,602	8,821	19,018

* Included within software is the cost of setting up the new enterprise, resource and planning system, Oracle, which went live in 2013. This had a cost of £22,132,000 and net book value of £8,907,000 at the end of the year.

The charge for amortisation of intangible fixed assets is included within administrative expenses on the income statement.

Notes to the financial statements (continued)

For the year ended 31 December 2016

10. Property, plant and equipment

	Land and buildings £000	Plant and equipment £000	Assets in the course of construction £000	Total £000
Cost				
At 1 January 2015	6,437	61,357	2,816	70,610
Additions	96	1,608	379	2,083
Disposals	-	(341)	-	(341)
At At 31 December 2015	6,533	62,624	3,195	72,352
Additions	47	1,236	72	1,355
Disposals	-	(572)	-	(572)
At 31 December 2016	6,580	63,288	3,267	73,135
Depreciation				
At 1 January 2015	3,646	55,026	-	58,672
Charge for the period	232	3,361	-	3,593
Disposals	-	(336)	-	(336)
At 31 December 2015	3,878	58,051	-	61,929
Charge for the period	248	2,635	-	2,883
Disposals	-	(562)	-	(562)
At 31 December 2016	4,126	60,124	-	64,250
Net book value at				
At 31 December 2015	2,655	4,573	3,195	10,423
31 December 2016	2,454	3,164	3,267	8,885

Included in the net book value of land and buildings is land at a cost of £1,270,000 (2015: £1,270,000) which is not depreciated.

In November 2015 a revaluation of land assets was performed by an independent valuer. This was done in order to comply with the accounting policy adopted by the parent group to reflect a more appropriate valuation of land in the group and follow the treatment allowed by IAS16. The revaluation exercise identified that land is held at an appropriate amount and therefore there has been no change to the carrying amount.

The net book value of land and buildings comprises:

	2016 £000	2015 £000
Freehold	1,884	1,965
Leasehold – short	570	690
	2,454	2,655

There are no contractual obligations to fund future tangible assets.

There are no restrictions on title given to banks of any fixed assets held by the Company.

Notes to the financial statements (continued)
For the year ended 31 December 2016

11. Investments in subsidiaries and associates

	Subsidiaries £000	Total £000
Cost		
At 1 January 2015	1,413	1,413
Capital injection	788	788
At 31 December 2015	2,201	2,201
At 31 December 2016	2,201	2,201
Impairment		
At 1 January 2015	(413)	(413)
Charge for the year	(414)	(414)
At 31 December 2015	(827)	(827)
Charge for the year	(314)	(314)
At 31 December 2016	(1,141)	(1,141)
Net book value at		
At 31 December 2015	1,385	1,385
31 December 2016	1,060	1,060

Direct subsidiaries of the Company:

All 100% owned unless otherwise stated:	Notes	Registered Office
Principal subsidiary undertakings:		
Doosan Babcock Energy Services (Overseas) Limited	A	Doosan House, Crawley Business Quarter, Manor Royal, Crawley, RH10 9AD, UK
Doosan Power Systems Americas LLC	A	1050 Crown Pointe Parkway, Suite 1200, Atlanta, GA 30338, USA
Other subsidiary undertakings:		
Doosan Power Systems Overseas Investments Limited	B	Doosan House, Crawley Business Quarter, Manor Royal, Crawley, RH10 9AD, UK
Doosan Power Systems Pension Trustee Company Limited	C	Doosan House, Crawley Business Quarter, Manor Royal, Crawley, RH10 9AD, UK
Joint ventures and associates:		
Doosan Babcock W.L.L (49%)	AD	Office 1449, Al Fardan Office Tower, 14th Floor, PO Box 31316, Doha Qatar
Doosan Babcock General Maint Services L.L.C. (49%).	AD	21st Floor Tamouh Tower Al Reem Island Abu Dhabi UAE PO Box 31234

Notes on nature of business

A Providing high value-added energy services and innovative technology led business solutions to the power generation industry and associated markets

B Holding company

C Dormant company

D Whilst the shareholding of these companies is 49%, Doosan Babcock exercises control over them through holding 3-1 positions on the board, appointing its own local General manager and having entitlement to 90% of profits from these companies. Therefore the Directors consider that Doosan Babcock exercises full control over these two companies and are classifying them as subsidiaries accordingly.

11. Investments in subsidiaries and associates (continued)

The Company has the following indirect subsidiaries:

All 100% owned unless otherwise stated:	Notes		Registered Office
Principal subsidiary undertakings:			
Doosan Babcock Energy Technologies (Shanghai) Limited	1	A	12F, No. 1088 Fangdian Road, Zizhu International Building, Pudong New Area,Shanghai 201204, China
Doosan Babcock Energy Polska Sp. z.o.o. (98.90%)	1	A	Podmiejska 7, Rybnik, Poland
Doosan Babcock Energy Germany GmbH	2	A	Oroßiger Weg 56, D-06188 Landsberg OT Hohenthurm, Germany
Doosan Lentjes GmbH (99.04%)	2	A	Daniel Goldbach Str.19, Ratingen 4880, Germany
Other subsidiary undertakings:			
Doosan Power Systems Europe GmbH	1	A	Daniel Goldbach Str.19, Ratingen 40880, Germany
Doosan Lentjes UK Limited (formerly AE&E Lentjes UK Limited)	3	A	Doosan House, Crawley Business Quarter, Manor Royal, Crawley, RH10 9AD, UK
Doosan Lentjes Czech s.r.o. (formerly AE & E Lentjes Praha s.r.o.)	3	A	Sokolovská 668/136d, 18600 Praha 8, Czech Republic
Doosan Lentjes Belgium N.V. (formerly AE & E Lentjes Belgie N.V.)	3	A	Brasschaat, 292, 2930 , Kapelsesteenweg, Belgium
Available-for-sale investment:			
HTC Purenergy Inc. (7.35%)	1	B	002 2305 Victoria Avenue, Regina, Saskatchewan, S4P 0S7, Canada
Doosan Power Systems India Private Limited (0.5%)	1	A	DLF Square Building, DLF Phase 2, Gurgaon, Haryana, India

Notes on holdings

1 Indirectly held through Doosan Power Systems Overseas Investments Limited

2 Indirectly held through Doosan Power Systems Europe GmbH

3 Indirectly held through Doosan Lentjes GmbH

Notes on nature of business

A Providing high value-added energy services and innovative technology led business solutions to the power generation industry and associated markets

B Research and development of innovative technology for the power generation industry

Notes to the financial statements (continued)
For the year ended 31 December 2016

12. Financial instruments

Accounting policies
Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised in respect of each class of financial asset and financial liability are set out in note 2.15.

Capital risk management
The Company manages its capital to ensure its ability to continue as a going concern and to maintain its optimal capital structure. The capital structure of the Company consists of equity, loans and retained earnings ultimately attributable to Doosan Heavy Industries & Construction Co., Ltd, a company based and registered in the Republic of Korea.

The Company manages its capital with the clear goal of optimising revenues, costs and assets of its individual operations, ensuring sufficient liquidity at all times. This ensures that the Company can operate on a going concern basis.

The Company's capital structure consists of common stock, capital reserves and retained earnings.

12.1. Categories of financial instruments

	Receivables / (payables) cash and cash equivalents £000	Derivatives £000	Total £000
2016			
Financial assets			
Cash and cash equivalents	4,026	-	4,026
Trade and other receivables	604,191	-	604,191
Derivatives	-	649	649
Total	608,217	649	608,866
Financial Liabilities			
Trade and other payables	(139,466)	-	(139,466)
Derivatives	-	(215)	(215)
Total	(139,466)	(215)	(139,681)

	Receivables / (payables) cash and cash equivalents £000	Derivatives £000	Total £000
2015			
Financial assets			
Cash and cash equivalents	25,865	-	25,865
Trade and other receivables	632,050	-	632,050
Derivatives	-	29	29
Total	657,915	29	657,944
Financial Liabilities			
Trade and other payables	(158,420)	-	(158,420)
Derivatives	-	(1,820)	(1,820)
Total	(158,420)	(1,820)	(160,240)

In the opinion of the Directors, the carrying amount of financial assets and liabilities are a reasonable approximation of fair value.

Aside from derivatives, substantially all financial assets and liabilities of the Company are due within one year.

Notes to the financial statements (continued)

For the year ended 31 December 2016

12. Financial instruments (continued)

12.2. Derivatives

All derivative assets and liabilities on the statement of financial position relate to foreign exchange hedges against cash flows.

The Company does not apply hedge accounting and so does not have a hedging reserve.

	Current assets £000	Non-current assets £000	Total £000	Current liabilities £000	Non-current liabilities £000	Total £000
2016						
At fair value through profit or loss	425	224	649	(150)	(65)	(215)
Total	425	224	649	(150)	(65)	(215)
2015						
At fair value through profit or loss	29	-	29	(1,626)	(194)	(1,820)
Total	29	-	29	(1,626)	(194)	(1,820)

The table below shows the maturity of the derivatives and hence when the effect of their exercise will be seen as cash flow:

	2016 Receivable £000	2016 Payable £000	2016 Total £000	2015 Receivable £000	2015 Payable £000	2015 Total £000
Maturing within:						
One year	10,513	(10,239)	274	99,437	(101,033)	(1,596)
One to two years	2,117	(2,096)	21	1,628	(1,668)	(40)
Two to five years	1,897	(1,758)	139	1,947	(2,102)	(155)
Total	14,527	(14,093)	434	103,012	(104,803)	(1,791)

12.3. Fair value estimation

The Company holds certain financial instruments on the statement of financial position at their fair value. The following table provides an analysis of those that are measured subsequent to initial recognition at fair value through profit or loss, grouped into levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). Specifically the value of these assets and liabilities are determined by measuring the difference between the exchange rate at the reporting date and the forward exchange rate per the contract; and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

There have been no transfers between these categories in the current or preceding year.

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
2016				
Financial assets – foreign currency contracts	-	649	-	649
Total assets measured at fair value	-	649	-	649
Financial liabilities – foreign currency contracts	-	(215)	-	(215)
Total	-	(215)	-	(215)
2015				
Financial assets – foreign currency contracts	-	29	-	29
Total assets measured at fair value	-	29	-	29
Financial liabilities – foreign currency contracts	-	(1,820)	-	(1,820)
Total	-	(1,820)	-	(1,820)

Notes to the financial statements (continued)

For the year ended 31 December 2016

12. Financial instruments (continued)

12.4. Financial risk factors

The Company's activities expose it to a variety of risk factors: market risk, liquidity risk, exchange rate risk, commodity risk, credit risk and interest rate risk. The Company's risk management strategy seeks to minimise the potential adverse effects of these risks on the Company's financial performance.

Financial risk management is carried out centrally by Company Treasury under policies approved by the Board. Company Treasury liaises with the Company's operating units to identify, evaluate and hedge financial risks. The Company uses derivative financial instruments to hedge risk exposures. The Company does not trade in financial instruments for speculative purposes.

a) Market risk

The primary market risk that the Company is exposed to arises in the defined benefit pension scheme. The Company is exposed to the performance of the assets invested in equities and bonds as well as the impact on liabilities of movements in bond rates and other actuarial assumptions which can vary significantly over time. To tackle these risks the Company has taken a number of actions over the previous years including increasing contributions and closing the defined benefit scheme to new entrants and to future accruals. There is an investment sub-committee jointly appointed by the Company and Pension Trustees in addition to the financial advisers appointed by the Trustees who aim to optimise the performance of the scheme's assets. Asset selection is undertaken to match the future liabilities of the scheme, a large proportion of the assets are held in fixed income investments, so that movements in asset and liabilities are correlated to mitigate market risk.

b) Liquidity risk

The Company manages liquidity risk by maintaining adequate cash balances, continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Company policy is to maintain a fixed percentage of surplus cash on instant access bank accounts and money market funds in order to cover any unexpected shortfall in cash.

c) Exchange risk

The Company operates internationally and is exposed to foreign exchange risk arising from exposure to various currencies, primarily to US Dollars, Euros and Hong Kong Dollars whilst its functional currency is in Pound Sterling. Foreign exchange risk arises from future trading transactions, assets and liabilities and net investments in foreign operations.

Company policy requires operating companies to tackle their transactional foreign exchange risk against their functional currency. Company Treasury enters into forward contracts on behalf of operating companies to cover foreign exchange transaction risk above pre-set materiality levels determined by the Chief Financial Officer whenever a current or future foreign currency exposure is identified with sufficient reliability.

Hedge accounting is applied to these transactions above a predetermined materiality level.

The Company is also exposed to tender exchange rate risk, which is the risk of financial loss as a result of adverse exchange rate movements during the tender period. The Company manages this risk by agreeing price adjustment formulae with the customer where possible and also by including an appropriate level of contingency in the tender exchange rates used.

Details of forward foreign exchange contracts outstanding at the reporting date in respect of foreign currency transaction exposures are set out in note 12.1 above.

d) Commodity risk

The Company is exposed to commodity price risk in its normal operations. This risk is managed by agreeing escalation formulae in commercial contracts with customers that enables the Company to recover any losses incurred as a result of an increase in the price of a commodity.

e) Credit risk

Credit risk is the risk that the counterparty will default on its contractual obligations, resulting in financial loss. Credit risk arises from cash and cash equivalents, derivative financial instruments and credit exposures to customers, including outstanding receivables and committed transactions. The Company also has a policy of assessing the creditworthiness of potential customers before entering into transactions.

For cash and cash equivalents and derivative financial instruments the Company has a policy of depositing funds only with independently rated counterparties with a minimum Fitch short- and long-term credit rating of F1/A. Management monitors the utilisation of these credit limits regularly.

For trade and other receivables credit evaluation is performed on the financial condition of accounts receivable using independent ratings where available or by assessment of the customer's credit quality based on its financial position, past experience and other factors. Where deemed necessary, the Company will insist upon a bank guarantee or parent company guarantee before entering into a contract with a counterparty.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Company's maximum exposure to credit risk.

12. Financial instruments (continued)

12.4 Financial risk factors (continued)

f) Interest rate risk
Interest rate risk is currently considered to be low due to market conditions and as a result all interest is paid on a variable rate basis. This is constantly under review by Company Treasury and should the risk increase loans may be switched to a fixed rate basis.

At 31 December 2016 the Company had an undrawn overdraft facility with HSBC of £40m (2015: £60m revolving credit facility with KBC Bank). On 28 February 2017 this was increased to £50m. The interest rate on this overdraft is paid at a margin above Bank of England base rate.

13. Inventory

	2016 £000	2015 £000
Raw materials and consumables	926	951
Inventory allowance	(38)	(38)
Work-in-progress	483	1,918
	1,371	2,831

14. Trade and other receivables

14.1. Trade and other receivables

	2016 £000	2015 £000
Current:		
Trade receivables	33,550	31,931
Loss provision for impairment of receivables	(1,383)	(1,718)
Amounts owed by Group undertakings	508,674	541,937
Other receivables	2,731	1,053
Prepayments and accrued income	16,335	18,387
Total receivables	559,907	591,590

Notes to the financial statements (continued)

For the year ended 31 December 2016

14. Trade and other receivables (continued)

14.2. Allowance for impairment of receivables

The Directors consider that the carrying values of current trade and other receivables approximate their fair values. It is Company policy to hedge against net cash inflows in foreign currencies, which may not necessarily equal the revenues received from invoicing trade receivables.

Based on prior experience and an assessment of the current economic environment, management believes there is no further credit risk provision required in respect of trade receivables.

	2016 £000	2015 £000
Balance as at 1 January	(1,718)	(599)
Charged to the income statement:		
Utilised provisions	90	32
Additional provisions	(5)	(1,156)
Reversed provisions	250	5
Balance at 31 December	(1,383)	(1,718)

The provision for impairment of trade receivables is based on a review of financial circumstances of individual customers. The ageing of the impaired receivables based on due date is as follows:

	2016 £000	2015 £000
Up to 1 month	-	-
1 to 2 months	-	7
2 to 6 months	-	-
6 to 24 months	-	1,130
Over 24 months	1,383	581
	1,383	1,718

The trade receivables disclosed above include amounts which are past due at the reporting date, but against which the Company has not recognised an allowance for doubtful receivables because there has not been a significant change in credit quality and we have strong relationships with most of our customers. The Company does not hold any collateral or other credit enhancements over these balances, nor does it have a legal right of offset against any amounts owed by the Company to the counterparty.

At 31 December 2016 trade and other receivables in the Company of £5,298,000 (2015: £6,887,000) were past due, but not impaired. These relate to a number of customers for which management believe their debt is not recoverable. The ageing analysis of these receivables is as follows:

	2016 £000	2015 £000
Up to 1 month	69	2,233
1 to 2 months	-	45
2 to 6 months	-	491
6 to 24 months	905	1,761
Over 24 months	4,324	2,357
	5,298	6,887

Notes to the financial statements (continued)

For the year ended 31 December 2016

15. Trade and other payables

	2016 £000	2015 £000
Trade payables	34,972	40,692
Amounts owed to Group undertakings	45,582	83,827
Other payables including taxation and social security	16,156	18,157
Accruals and deferred income	35,440	24,403
Subsidiaries called up share capital not paid	750	750
	132,900	167,829

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 53 days (2015: 53 days). For most suppliers no interest is charged on overdue invoices. The Company has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms. The Directors consider that the carrying amount of trade payables approximates to their fair value.

16. Provisions

	Restructuring Provision £000	Total current £000	Onerous leases £000	Other £000	Total non-current £000
Balance at 1 January 2015	-	-	1,371	5,641	7,012
Income statement charge	4,200	4,200	-	293	293
Amounts reversed	-	-	(1,124)	(1,130)	(2,254)
Unwinding of discounting	-	-	83	600	683
Applied in the year	-	-	-	(1,258)	(1,258)
Balance At 31 December 2015	4,200	4,200	330	4,146	4,476
Income statement charge	8,834	8,834	-	372	372
Reclassification				880	880
Unwinding of discounting	-	-	62	3,538	3,600
Applied in the year	(4,200)	(4,200)	(43)	(549)	(592)
Balance at 31 December 2016	8,834	8,834	349	8,387	8,736

The restructuring provision has been recognised following the Company beginning a process to adapt to the evolving energy industry and help ensure it is well placed to capitalise on future opportunities.

At the balance sheet date the onerous lease provision related to the difference between rental income and contracted expense in the Park House building over the remainder of the lease.

Other provisions also include an amount of £7.5m (2015: £4.1m) relating to potential claims for which the Company may be liable together with related legal costs. Due to the nature of these claims, it is not possible to predict precisely when these provisions will be utilised, but it is anticipated that, in the majority of cases, it would be in the medium term.

Notes to the financial statements (continued)

For the year ended 31 December 2016

17. Deferred tax

	Accelerated tax depreciation £000	Retirement based obligations £000	Provisions and other payables £000	Losses £000	Other £000	Total £000
At 1 January 2015	3,355	14,789	186	5,443	649	24,422
Credited / (Charged) to income statement	262	(271)	(152)	(60)	(649)	(870)
Charged to other comprehensive income	-	(3,693)	-	-	-	(3,693)
At 31 December 2015	3,617	10,825	34	5,383	-	19,859
Credited / (Charged) to income statement	357	(589)	-	3,639	-	3,407
Credited to other comprehensive income	-	7,261	-	-	-	7,261
At 31 December 2016	3,974	17,497	34	9,022	-	30,527
At 31 December 2015						
Deferred tax assets	3,617	10,825	34	5,383	-	19,859
	3,617	10,825	34	5,383	-	19,859
At 31 December 2016						
Deferred tax assets	3,974	17,497	34	9,022	-	30,527
	3,974	17,497	34	9,022	-	30,527

The Company has no deferred tax liabilities.

A deferred tax asset has been recognised only to the extent that there are expected to be future taxable profits against which the asset will be utilised.

18. Share capital

	2016 £000	2015 £000
Called up, allotted and fully paid		
Ordinary shares of £1	261,957	261,957

All ordinary shares issued are fully paid, Ordinary shares carry no right to fixed income, but each share carries the right to one vote at general meetings of the Company. There is no specified authorised share capital.

All shares are classed as equity.

19. Retained earnings

	£000
Balance at 1 January 2015	192,258
Profit for the year	(7,615)
Actuarial loss on post-employment obligations	12,304
Deferred tax credit thereon	(3,692)
At 31 December 2015	193,254
Loss for the year	(19,395)
Actuarial gain on post-employment obligations	(46,559)
Deferred tax debit thereon	7,261
Balance at 31 December 2016	134,561

20. Notes to the cash flow statement

Cash used in operations comprises:	2016 £000	2015 £000
Operating (loss)/profit	(33,729)	(4,358)
Non-cash pension adjustment	(5,999)	(4,129)
Amortisation of intangible assets	5,129	4,630
Depreciation of property, plant and equipment	2,883	3,593
Loss on disposal of property, plant and equipment	3	4
Fair value of forward exchange contracts	-	-
Operating cash flow before movements in working capital	(31,737)	(260)
Decrease in inventories	1,460	841
Increase in receivables	(5,690)	(43,162)
Increase in payables	4,022	22,110
Cash used in operations	(31,921)	(20,471)
Cash and cash equivalents comprise:		
Cash and deposits	4,026	25,865

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of less than three months.

Notes to the financial statements (continued)

For the year ended 31 December 2016

21. Capital commitments

The company has no capital commitments.

22. Contingent liabilities

In the ordinary course of business the Company has guarantees and counter indemnities in respect of bonds relating to performance under contracts. The Company also enters into forward exchange contracts to reduce its risk and exposure to fluctuations in exchange rates, which accrue in the ordinary course of business.

23. Leasing

Operating leases

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

	2016 £000	2015 £000
Leases on land and buildings expiring:		
within one year	3,537	4,131
between one and five years	16,925	16,341
after five years	13,842	17,468
Leases on other assets expiring:		
within one year	1,390	1,573
between one and five years	1,135	1,978
Total	22,036	41,491

Future payments on operating leases relate primarily to motor vehicles and office premises. The leases have a variety of expiry dates mainly falling within three years for the smaller leases. £19.5m of the liabilities relate to the office premises in Renfrew, which is committed up to 2026. There are also office premises in Crawley, which is committed up to 2025. During the year total payments of £5.7m (2015: £6.2m) were made by the Company for operating leases. The lease expenditure charged to the income statement during the year is disclosed in note 5.

24. Construction contracts in progress

	2016 £000	2015 £000
Amounts due from customers for contract work		
– Billed	33,549	31,931
– Unbilled	49,032	50,114
Amounts due to customers for contract work	(21,339)	(26,836)
	61,242	55,209

The aggregate amount of costs incurred, plus recognised profits (less recognised losses) for all contracts in progress that had not reached practical completion at the reporting date was £2,215m (2015: £2,093m).

Notes to the financial statements (continued)

For the year ended 31 December 2016

25. Related party transactions

Receivables and payables from subsidiary undertakings

	2016 £000	2015 £000
Receivables		
Amounts owed by Doosan Babcock Energy Germany GmbH	11,727	6,407
Amounts owed by Doosan Power Systems Europe GmbH	7,078	6,186
Amounts owed by Doosan Power Systems Overseas Investments Limited	59,794	58,235
Amounts owed by Doosan Babcock W.L.L	261	187
Amounts owed by Doosan Babcock General Maint Services L.L.C.	12,289	2,992
Total receivables	91,149	74,007
Payables		
Amounts owed to Doosan Babcock Energy Services (Overseas) Limited	3,760	4,146
Amounts owed to Doosan Lentjes GmbH	28,192	23,512
Amounts owed to Doosan Power Systems Europe GmbH	2,171	-
Amounts owed by Doosan Babcock W.L.L	500	-
Amounts owed to Doosan Babcock Energy Technologies (Shanghai) Limited	860	354
Amounts owed to other subsidiary undertakings	389	235
Total payables	35,872	28,247

Income and costs from subsidiary undertakings

	2016 £000	2015 £000
Income		
Doosan Babcock Energy Services (Overseas) Limited	387	-
Doosan Power Systems Europe GmbH	24	17
Doosan Lentjes GmbH	4	459
Doosan Babcock General Maint Services L.L.C.	2,588	2,089
Doosan Power Systems America LLC	712	930
Doosan Babcock Energy Germany GmbH	1,213	760
Doosan Babcock Energy Polska Sp. z.o.o.	42	334
Total income	4,970	4,589

Notes to the financial statements (continued)

For the year ended 31 December 2016

25. Related party transactions (continued)

Income and costs from subsidiary undertakings (continued)

	2016 £000	2015 £000
Costs		
Doosan Power Systems America LLC	2,419	3,323
Doosan Babcock Energy Technologies (Shanghai) Limited	1,213	833
Doosan Babcock Energy Germany GmbH	3,959	8,854
Doosan Babcock W.L.L	426	-
Doosan Babcock Energy Polska Sp. z.o.o.	225	808
Doosan Power Systems Europe GmbH	92	256
Doosan Power Systems Czech Investments s.r.o.	-	795
Total costs	8,334	14,074

Finance income and costs from subsidiary undertakings

	2016 £000	2015 £000
Finance income		
Doosan Power Systems Overseas Investments Limited	1,559	651
Total finance income	1,559	1,086
Finance costs		
Doosan Lentjes GmbH	901	736
Total finance costs	901	736

Receivables and payables from other group entities

	2016 £000	2015 £000
Amounts owed by Doosan Power Systems Holdings Limited	-	54,283
Amounts owed by Doosan Power Systems S.A.	402,506	385,845
Amounts owed by Doosan Heavy Industries & Construction Co., Ltd	14,325	17,087
Amounts owed by Doosan Power Systems India	636	322
Amounts owed by Doosan Corporation	18	143
Amounts owed by other group undertakings	41	94
Total receivables	417,526	457,774
Amounts owed to Doosan Skoda s.r.o.	44	43,196
Amounts owed by Doosan Heavy Industries & Construction Co., Ltd	3,790	-
Doosan Information and Communications Europe Limited	2,449	1,072
Doosan Power Systems (Scotland) Limited Partnership	3,371	1,157
Total payables	9,654	45,425

Notes to the financial statements (continued)

For the year ended 31 December 2016

25. Related party transactions (continued)

Income and costs from other group entities

	2016 £000	2015 £000
Income		
Doosan Heavy Industries & Construction Co., Ltd	22,225	23,518
Doosan Skoda s.r.o.	39	1,234
Doosan Information and Communications Europe Limited	1,716	1,418
Doosan Power Systems India	200	189
Total income	24,180	26,359
Costs		
Doosan Power Systems S.A.	-	5,137
Doosan Heavy Industries & Construction Co., Ltd	3,157	1,343
Doosan Skoda s.r.o.	-	13
Doosan Information and Communications Europe Limited	14,392	11,317
Doosan Corporation	-	7
Doosan Power Systems (Scotland) Limited Partnership	2,786	1,444
Total costs	20,335	19,261

Finance income and costs from other group entities

	2016 £000	2015 £000
Finance income		
Doosan Power Systems Holdings Limited	2,062	2,357
Doosan Power Systems S.A.	3,349	14,323
Total finance income	5,411	16,680
Finance costs		
Doosan Skoda s.r.o.	92	778
Total finance costs	92	778

Notes to the financial statements (continued)

For the year ended 31 December 2016

26. Subsequent events

On 26th May 2017 HSBC granted a £10m increase to the overdraft facility to £50m, providing increased working capital to the business.

27. Ultimate parent company and controlling party

The Company is a subsidiary undertaking of Doosan Corporation Co., Ltd registered in the Republic of Korea which the Directors consider to be the Company's ultimate parent company. This is the largest group in which the results of the Company are consolidated. The smallest such group is that headed by Doosan Power Systems S.A., which is registered in Luxembourg, Doosan Power Systems S.A. is the parent of the Company.

The consolidated financial statements of Doosan Corporation Co., Ltd are available to the public and may be obtained from Euljiro 6-ga, Jung-gu, Seoul, the Republic of Korea, 100-730.

The consolidated financial statements of Doosan Power Systems S.A. are available to the public and may be obtained from Doosan House, Crawley Business Quarter, Manor Royal, Crawley, RH10 9AD, United Kingdom.