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Doosan Babcock Limited

Annual report and financial statements for the year ended 31 December 2019

Reg no. 00839354

Contents

Officers and professional advisers

Directors

Andrew Adam Colquhoun
Suk Joo Kang
Seung Woo Sohn
Hongook Park

Company secretary

Mark Sunley

Registered number

00839354

Registered office

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

Independent auditors

Ernst & Young LLP
1 More London Place
London
SE1 2AF
United Kingdom

Strategic report
For the year ended 31 December 2019

The Directors present their strategic report on Doosan Babcock Limited (the 'Company') for the year ended 31 December 2019.

Business Review

Trading performance

The Company continues to diversify with a strategic focus on delivery excellence in engineering, aftermarket and upgrade solutions to the nuclear, oil and gas, petrochemical and process industries.

Order intake for the Company increased by 61% to £583,634,000 (2018: £362,005,000). There was a 2% reduction in revenues to £312,230,000 (2018: £318,269,000), reflecting the timing of order award coupled with a focus on quality of earnings.

The Company delivered an operating profit for the year of £4,340,000 (2018: £10,426,000). This was down from last year due to one large loss-making project which will complete in 2020 and has been fully provided for. There were no restructuring costs in 2019 (2018: £2,171,000).

Overall, non-operating expenses reduced in 2019, with impairment and write off of intangible assets down to £377,000 (2018: £10,112,000), and IAS 19 pension scheme expenses down to £3,242,000 (2018: £8,882,000), since there was no GMP equalisation charge in 2019 (2018: £5,771,000).

These factors resulted in an improved profit before tax of £3,737,000 (2018: £531,000).

Year-end position

The Company's year-end cash position was a net overdraft at 31 December 2019 of £52,811,000 (2018: £35,128,000) and net assets were £421,667,000 (2018: £407,818,000).

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 2019 performance:

Key performance indicator	2019	2018
Order intake (£000)	583,634	362,005
Revenue (£000)	312,230	318,269
Operating profit/ (loss) (£000)	4,340	10,426

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 2019 performances:

Non-financial key performance indicator	Target	2019	2018
Reportable lost time accidents	0	0	2
Accident injury frequency rate (per 100,000 hours worked)	0.00	0.00	0.02
Recordable injury frequency rate (per 200,000 hours worked)	0.00	0.07	0.14
Health and safety regulatory breaches	-	-	-
Environmental issues and compliance with regulator licence	None	None	None
'Achilles' score – independent assessment of supplier credentials for quality, heath, safety and environment	100%	98%	100%

Strategic report (continued)
For the year ended 31 December 2019

Likely future developments

The Business has successfully implemented a series of cost saving programmes over the last 4 years to achieve a right-sized overhead base and ensure the Company is appropriately structured to drive future growth. The business will continue its policy of expansion and diversification by looking to capitalise on opportunities in both domestic and international markets. This will help achieve a balanced portfolio of products across various geographies, thereby minimising future risk as well as driving business expansion. The effect on the business of Covid-19 is noted below under Principal risks and uncertainties.

The business continues its expansion into the Nuclear and Process businesses successfully replacing turnover from the declining coal power sector. Considerable orders have already been secured here with an order book of £599 million in these businesses providing certain turnover and associated margin in 2020 and later years.

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 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 costs, exchange rates and timing of new projects.

Supplier and raw material costs

Raw material and supplier costs, especially on key contracts can significantly affect the outcome of a project. 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.

Exchange risk

In respect of foreign currencies, the Company's policy is to hedge significant exposure to movements in exchange rates through the use of the forward market primarily for US Dollars, Euros and Czech Koruna. These hedges are made primarily to cover foreign currency cash flows on projects. No trading or speculation in financial instruments is undertaken. For operations in the MENA region our suppliers and customers are largely in the same currency, which mitigates the risk of cash flows for these projects.

Timing of new projects

The timing of new projects can affect the performance in any given year if there are delays to new projects. This risk has now been significantly reduced as the business has moved away from large new build projects. With greater volumes of smaller projects, the risk from delays is thus spread between projects and so the financial risk from one project delay is greatly diminished. The Company addresses the risk that remains 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.

Brexit

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. The Company has secured financing arrangements with investors and a strong order book to mitigate against any economic headwinds caused by Brexit. The majority of the work in the business is in the UK undertaken by UK based employees and as such the risk from reduced labour movement and needing to operate across European borders is considered low.

Credit risk

Details of the Company's management of credit risk and liquidity risk can be found in note 12 of the financial statements.

Pension scheme

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 closing the defined benefit scheme to new entrants, future accruals, and increasing contributions. There is an investment sub-committee jointly appointed by Doosan Babcock Limited and the Pension Trustees in addition to the financial advisers appointed by the Trustees who aim to optimise the performance of the scheme's assets.

Covid-19 Virus

Upon the development of the Covid-19 situation the business took steps to mitigate the risks of the virus, considering the different scenarios which could occur and measures that would be required to keep the business running in those scenarios and our people safe. This has involved consultation with customers, employees and suppliers so that we can all work together to best mitigate risks from this situation. As a result of this, the business has a plan which will ensure it survives this crisis and holds regular meetings and reviews to ensure that this continues to be the case in the face of an ever-evolving situation.

Due to the critical infrastructure work the Company undertakes, primarily in the energy, pharmaceutical and oil and gas sectors the level of risk posed by Covid-19 is greatly reduced. Our workforce in these areas have in large been identified as Critical Workers.

Strategic report (continued)
For the year ended 31 December 2019

Covid-19 Virus (continued)

The key risks to the business from Covid-19 are its ability to continue with projects if workers cannot access sites safely during lockdown and the risk of postponement of projects if customers are unable to fund projects at this time. Management note that the situation, and resultant impacts, of Covid-19 Virus are constantly developing. Management expect that these risks will result only in delay rather than cancelling of work. To mitigate an anticipated short-term reduction in turnover, the business has implemented the furlough of some staff, pay reductions and the deferral of payments such as UK VAT.

Longer term there is the risk of the effect of general economic downturn as a result of the virus which could affect the business, however it is believed that the business is more resistant to such effects as much of the work performed is critical infrastructure maintenance and service and less dependent on the economy as a whole.

Section 172 Statement - Duty to promote the success of the company

The directors of the Company have acted in a way that they considered, in good faith, to be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so have regard amongst other matters to:

- the likely consequences of any decision in the long term,
- the interests of the Company's employees,
- the need to foster the Company's business relationships with suppliers, customers and others,
- the impact of the Company's operations on the community and the environment,
- the desirability of the Company maintaining a reputation for high standards of business conduct, and
- the need to act fairly as between members of the Company.

Considering the Company's stakeholders is an important way the Board makes decisions, although in balancing those different perspectives it won't always be possible to deliver everyone's desired outcome.

Decision making

Doosan Babcock is led by an Executive Leadership Team, comprising of the CEO, CFO and a number of Executive Directors, to provide strategic and operational leadership for the Company. This is underpinned by a Corporate Governance policy, covering all functions and all aspects of business operation and the required decision-making process and procedures for compliance.

Strategy

Stakeholders are at the core of the Doosan Babcock business which is focussed on building trusted and long-lasting relationships.

Throughout the year, there are regular strategic and operational business reviews initiated by the Board of Directors to understand customer insights in order to assist business planning. In addition to this, a programme of Executive level engagement with respective customer counterparts is planned, to manage the strategic agenda and maintain relationships from Board level through to operational delivery.

Doosan Babcock is a people-based organisation and the Board of Directors place people strategy high their agenda. Health and Safety is Doosan Babcock's number one value. The voice of its people is channelled through regular business reviews as well as business wide communication forums.

On an annual basis, the Board of Directors appraises the people strategy to ensure critical talent and key skills are maintained and developed within the organisation to meet the short and long-term business plan.

Driving towards a lower carbon future has taken ever greater prominence in the strategic direction and focus of the Board of Directors and its management team.

Our key stakeholders

Customers

Customers are at the core of the Doosan Babcock business which is focussed on building trusted and long-lasting relationships.

Ensuring Customers and Client satisfaction is central to the values of the Board of Directors who realise this through long term collaborative frameworks, a strategy of fostering mutually beneficial customer relationships and understanding and meeting customer needs. Through its customers the Company generates and maintains a reputation that will extend across its markets and assist in the growth of the business.

Key customers are engaged at many levels across the business, starting with the Directors and cascading down. Stakeholder mapping is used to identify the various decision-making positions within the customer structure and mapping these to Doosan Babcock organisation. Customer relationship plans are developed to ensure that engagement with clients is at the appropriate level within each organisation. These plans are presented to and approved by the Board. Engagement with customers is a continual process that will occur during scope development, project delivery and after project close out. This helps to ensure that the customers' needs have been met. Doosan Babcock has collaborative relationships with many of its key clients, promoting open communication and discussion at all levels, leading to joint development of projects and speedy resolution of any challenges encountered.

Strategic report (continued)
For the year ended 31 December 2019

Section 172 Statement - Duty to promote the success of the Company (continued)
Customers (continued)
The Board discusses the interactions with the customers of the organisation at all levels, through this the Directors gain an understanding of the client's problems, requirements and drivers. This allows the Directors to guide the tailoring of Company products and offerings to meet the aspects that customers deem most important to their businesses. At the start of the Covid-19 pandemic, directors wrote to many customers explaining what actions the company is taking to minimise disruption to the business and to support our employees, communities and customers. Regular engagement with stakeholders across all of Doosan Babcock markets also ensures that Directors gain an insight to any changes in market or market drivers which will in turn change or modify the customers' needs and requirements. continue to develop the services of the business in order to meet the needs of its clients. The Board identified the need to open branch offices near to some of the primary work locations, along with fabrication facilities in Grangemouth and in north east England to better service the needs of its client base in these areas.
The business evolves to meet the changing markets and regulatory requirements. For example, in the Process and Energy sector the business has obtained accreditation to ISO 44001 and ISO 29001 to meet the changing needs of its customer base.

Suppliers
Doosan Babcock has some 700 active supply stakeholders (suppliers and subcontractors) that it works with throughout the year. The vast majority of these are locally based, with some 90% within the UK, though some are local subsidiaries of larger international companies. The Board has initiated and approved processes and training programs that mean the Company treats these stakeholders fairly and ensures appropriate competition within its supply markets to help drive improving standards, service, specifications, environmental performance and overall cost.

The Board largely awards business based on Scope Compliance or Benefit, Adherence to fair Terms & Conditions, Delivery Time, Supplier Capability and overall Cost. Where there are additional requirements from other stakeholders (Government or Client) these are also included these within the award criteria, for example Localised Spend, SME targets, higher Environmental Performance etc.

The Board policy is to focus its strategic procurement activities to a group of 50+ suppliers in major supply categories. Using these suppliers, activities are limited to a small circle of partners that the organisation works with on a recurrent basis, using framework agreements, including agreed terms and conditions of trade, cost and rebate structures. Close contact is maintained with these suppliers giving them the opportunity to exchange information to help drive further performance (on both sides). The nominated buyer is clearly stated on all orders. Suppliers not on the approved list are free to contact the nominated buyer if they wish to be considered.

The Board has additionally approved investment in new eProcurement tools at present to help improve the flow of data between the Company and its supply stakeholders, thereby reducing burden on both sides whilst maintaining process compliance and appropriate transparency.

Community and environment
The role of the business in supporting communities in which it operates is high on the agenda of the Board. It sees business and society as a close partnership and an opportunity for mutual growth, therefore creating a socially responsible enterprise. The Directors' goal is to develop and grow alongside society, as a trusted and trustworthy partner and make sure wherever the Company operates, it does so transparently and lawfully. The Directors aim to contribute to the development of talent in society and our community service activities promote both corporate and social development.

The Board of Doosan Babcock is committed to tackling the challenge to lower its carbon footprint through two methods:

Firstly, by setting targets. In 2012 the Board set a target to reduce its carbon footprint by 50% by 2020 based on levels at that time. This target and has been achieved through business operating procedures. The Company footprint is measured and is reported through an annual report which is included in these accounts.

Secondly, to evolve the business portfolio to support the overall climate transition in the energy sector. This year, the Board of Directors plan to place additional focus on both these areas as the climate agenda becomes increasingly important with key events such as COP26 in the pipeline.

Regulators
The Board recognizes the importance of open and continuous dialogue with its regulatory stakeholders to ensure legal and regulatory compliance. This includes Companies House, Information Commissioner's Office and the Office for Nuclear Regulation. The Company has relevant policies and procedures in place, and these are reviewed on a regular basis. Individual directors engage with the key stakeholders of the Company, carry out various assessments to ensure compliance and mitigate potential regulatory issues.

When regulation requires compliance through employees, processes are in place to cascade these requirements through the Company in order to make sure they are adhered to and meet regulatory requirements and deadlines.

Shareholders
The Directors of Doosan Babcock Ltd actively seek out the expectations and requirements of its shareholders when making key decisions and investments. The Directors strive to attract investments in the global market by earning recognition for their genuine values in terms of growth potential and technological competitiveness. During the year the Board holds, on a monthly basis, a business review meeting with Doosan Heavy Industries (the parent shareholder) and holds open discussion for the major decisions making, in line with the Governance Policy.

Strategic report (continued)
For the year ended 31 December 2019

Section 172 Statement - Duty to promote the success of the company (continued)

Employees

The Directors of Doosan Babcock regards its employees as its most important resource. Its clients work with the Company because of the skills, competence and standards that its people bring to delivering their projects.
The Board recognises that its workforce must be fully aligned to their individual and the Company success measures. To support this the Directors drive and encourage open and transparent communication across all individuals and employee groups. This base level ethos is important to ensure all of the workforce is engaged and involved in working towards the common success of them as individuals, and of the organisation. At Doosan Babcock multiple approaches are initiated by the Board to engaging its workforce across the organisation, the key approaches include:

- Monthly CEO Video Message to all employees to communicate business performance; covering safety, contract successes and targets, business financial updates, employee recognition and Covid related measures taken to support employees.
- Monthly CEO Webinar to the Senior Leadership Team to share business performance, key successes and for the leadership to gain and provide feedback to the CEO/Executive Team.
- Quarterly Business Sector based team "town-hall" sessions giving business updates to the teams and open discussion forums.
- Face to face roll-out Annual business plan, led personally by the CEO, providing the opportunity for open Q&A sessions.
- Senior Leadership Monthly team sessions, utilising the OneDrive structure for consistency in messaging to both office and site-based teams. This provides functional teams the opportunity to raise questions or gain more insight into areas such as business activities and future workload.
- Monthly Safety themes to emphasize the key Company values to all employees whilst reinforcing the need for all to place positive challenge.
- Directors and Senior Leadership Tours to review offices and site locations and to engage in communication with employees to seek feedback on safety and operational activities
- Toolbox talks for Blue Collar workers to ensure that this group of employees have access to the consistent messages available to those who don't have access to the Company intranet on a day to day basis.
- Weekly CEO breakfast sessions – a cross section of employees are invited to share an informal breakfast with the CEO to ask any questions face to face.
- Continual development of the intranet sighting business news items, announcement of contract awards, employee personal achievements, CSR activity, Safety Awards and a variety of other areas including the work driven by the Board to support STEM in our communities.
- Business wide Communication Network with employees who volunteer to act as a further conduit for two-way communication across sectors and corporate functions.
- Formal and informal forum for the recognised Employee Representatives / Trade Union elected members in order to discuss any aspect in relation to employees.
- Annual Excellence Awards ceremony recognising the contribution of our employees towards the business goals and success under seven separate categories
- 'MyThanks' scheme to show recognition for employees who go above and beyond their day to day role

The Board's drive and passion in maintaining strong relationships across our employee groups is a key critical factor to ensuring that the Company ethos of openness and transparency underpins the way Doosan Babcock operates throughout its business.

Approved by the board of directors and signed on behalf of the directors on 27 July 2020.

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' report
For the year ended 31 December 2019

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 2019. A commentary of future developments in the business, financial risk management objectives and policies, and exposure to price, credit, liquidity, cash flow risk and how the directors have had regard to the need to foster the Company's business relationships with all stakeholders and the effect of that regard are provided in the Strategic report.

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 profit after taxation was £1,840,000 (2018: £312,000). For the year ended 31 December 2019 no dividends were declared.

The Company's net assets at 31 December 2019 are £421,667,000 (2018: £407,818,000).

Directors

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

Andrew Adam Colquhoun	
Suk Joo Kang	
Byoung Man Kim	Resigned 16 July 2020
Jin Won Mok	Resigned 31 January 2020
Hongook Park	Appointed 1 February 2020
Seung Woo Sohn	Appointed 16 July 2020

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 £3,578,000 (2018: £3,666,000) of which £1,227,000 (2018: £61,000) was not funded by a third party and the remaining £2,351,000 (2018: £3,605,000) was funded, primarily by the parent company.

There was no development expenditure capitalised during the year (2018: £Nil).

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 2019

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 Company continues to diversify with a strategic focus on delivery excellence in engineering, aftermarket and upgrade solutions to the nuclear, oil and gas, petrochemical and process industries.

The Company has carefully analysed its cash requirements for the next 12 months after the directors sign off date and consider there to be sufficient headroom to meet going concern requirements.

Order intake for the Company increased by 61% at 31 December 2019 to £583,634,000 (2018: £362,005,000). There was a 2% reduction in revenues to £312,230,000 (2018: £318,269,000), reflecting the timing of order award coupled with a focus on quality of earnings.

The company delivered an operating profit for the year of £4,340,000 (2018: £10,426,000). This was down from last year due to one large loss-making project which will complete in 2020 and has been fully provided for. There were no restructuring costs in 2019 (2018: £2,171,000).

These factors resulted in an improved profit before tax of £3,737,000 (2018: £531,000).

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.

Covid-19 has generated additional risk and uncertainty for the business, however, it has taken steps to mitigate this by considering the different scenarios that could occur and measures that would be required to keep the business running in those scenarios through consultation with suppliers and customers. As a result of this, the business has a plan which will ensure it survives this crisis and holds regular meetings and reviews to ensure that this continues to be the case in the face of an ever-evolving situation. Due to the critical infrastructure work the Company undertakes, primarily in the energy, pharmaceutical and oil and gas sectors the level of risk posed by Covid-19 is greatly reduced. Our workforce in these areas have in large been identified as Critical Workers. The key risks to the business from Covid-19 are its ability to continue with projects if workers cannot access sites safely during lockdown and the risk of postponement of projects if customers are unable to fund projects at this time. Management note that the situation, and resultant impacts, of Covid-19 Virus are constantly developing. Management expect that these risks will result only in delay rather than cancelling of work assisted by a healthy backlog of work of over £700m. To mitigate an anticipated a short term reduction in turnover the business has implemented the furlough of some staff, pay reductions and the deferral of payments such as UK VAT. Longer term there is the risk of the effect of general economic downturn as a result of the virus which could affect the business, however it is believed that the business is more resistant to such effects as much of the work performed is critical infrastructure maintenance and service and less dependent on the economy as a whole. 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 closing the defined benefit scheme to new entrants, future accruals, liability hedging and increasing contributions. There is an investment sub-committee jointly appointed by Doosan Babcock Limited and the 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.

Directors' report (continued)
For the year ended 31 December 2019

Going concern (continued)

The Company's base case forecasts and projections, show that the Company will meet the scheduled repayments for a period of at least 12 months from the date of signing these financial statements. As part of this analysis, severe but plausible downside scenarios have been considered, such as a 10% shift in revenue from 2020 to 2021 reflecting possible delay with projects. The Company also considered a worst-case scenario which assumed refinancing of the loan with the current external loan provider was not successful and the overdraft the Company is relying upon was recalled. In this scenario, the Company would need to rely on the support of its immediate parent undertaking, Doosan Power Systems S.A. Although in the opinion of the directors such a worst-case scenario is not likely, the Board acknowledges the general uncertainty provided by COVID-19 and as such has obtained a written confirmation of financial support from its immediate parent undertaking, Doosan Power Systems S.A for a period of at least 12 months from the date of approval of these financial statements. The Directors, having made the relevant enquiries and having reviewed the Doosan Power Systems S.A's financial position in its latest filings and the cashflow forecast for Doosan Power Systems S.A. group, concluded that the Doosan Power Systems S.A. group is in a strong financial position with sufficient amounts of liquid assets available. The Board is therefore satisfied that the immediate parent undertaking has adequate resources to provide the support to the Company if it is needed.

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.

Statement of Corporate Governance arrangements

The Company has adopted the Doosan Credo which is a group wide policy set up by the parent group Doosan Corporation. This policy covers key areas of Governance such as employees, customers, social responsibility, health and safety, integrity and team work. Full details of this are accessible on the internal website for all employees to use as guidance. In additional to this Doosan Babcock has it's own detailed Corporate Governance policy which was set up and approved in January 2019. This policy applies the principles of the Doosan Credo in greater and more specific detail, tailored to Doosan Babcock as a Company. It covers Finance, Human Resources, Legal, Commercial, Communications, Health and Safety , Quality, Strategy and Administration processes. Within these sections are detailed processes covering approval levels and the flow between different levels of authority.

Further details of the kind of policies and initiatives applied can be found in the Strategic report in the S172 statement.

Auditor

A resolution to re-appoint Ernst & Young LLP as auditor will be proposed at the forthcoming annual general meeting.

Approved by the board of directors and signed on behalf of the directors on 27 July 2020.

Kang. SJ

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

Directors' responsibilities
For the year ended 31 December 2019

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

Opinion

We have audited the financial statements of Doosan Babcock Limited for the year ended 31 December 2019 which comprise the income statement, statement of other comprehensive income, statement of financial position, statement of changes in equity, the cash flow statement and the related notes 1 to 29, including a summary of significant accounting policies. 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.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2019 and of its profit 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of mater - effects of Covid-19

We draw attention to Note 28.1 of the financial statements, which describes the economic and social consequences the company is facing as a result of Covid-19 and to Note 2.2 describing the going concern basis of accounting. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

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

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

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

Opinions 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 directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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 material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which 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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 10, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the

Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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.

Ernst & Young LLP

Natalia Moolman (Senior statutory auditor)

For and behalf of Ernst & Young LLP, Statutory Auditor

London

31 *July 2020*

Income statement

For the year ended 31 December 2019

	Note	2019 £000	2018 £000
Revenue	4	312,230	318,269
Cost of sales		(288,834)	(283,379)
Gross profit		23,396	34,890
Administrative expenses		(19,056)	(24,464)
Operating Profit	5	4,340	10,426
Impairment of property plant and equipment		-	(2,165)
Defined benefit pension scheme expenses	6.3	(3,242)	(8,882)
Other non-operating expenses		(1,198)	(1,909)
Impairment of intangible assets	9	(377)	(10,112)
Impairment of investments	11	-	(30)
Profit on disposal of property, plant and equipment		20	-
Net finance income	7	4,194	13,203
Profit before tax		3,737	531
Taxation	8.1	(1,897)	(219)
Profit for the year		1,840	312

The notes on pages 17 – 57 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 2019

	Note	2019 £000	2018 £000
Profit for the year		1,840	312
Items that will not be reclassified subsequently to profit or loss:			
Actuarial movement in retirement obligations	6.3/ 8.3	14,657	8,714
Income tax relating to items not reclassified to the income statement	6.3/ 8.3	(2,648)	(1,482)
Other comprehensive income for the year net of tax		12,009	7,232
Total comprehensive income for the year		13,849	7,544

Statement of financial position

As at 31 December 2019

	Note	2019 £000	2018 £000 Restated *
Non-current assets			
Intangible assets – goodwill	9	595	595
– other	9	672	908
Property, plant and equipment	10	4,540	5,211
Right of use assets	25	29,160	-
Investments in subsidiaries	11	1,000	1,000
Deferred tax assets	18	24,154	27,233
Trade and other receivables	14	537,276	528,111
		597,397	563,058
Current assets			
Inventories	13	340	351
Trade and other receivables	14	81,277	94,429
Contract assets	26	46,287	40,766
Derivative financial instruments	12.2	258	466
Cash and cash equivalents	22	267	2,038
		128,429	138,050
Total assets		725,826	701,108
Current liabilities			
Trade and other payables	15	(74,220)	(86,353)
Contract liabilities	26	(7,757)	(9,015)
Borrowings	16	(120,711)	(106,375)
Derivative financial instruments	12.2	(5)	(195)
Lease liabilities	25	(5,108)	-
		(207,801)	(201,938)
Net current liabilities		(79,372)	(63,888)
Non-current liabilities			
Derivative financial instruments	12.2	-	(13)
Deferred tax liabilities	18	(1,381)	(1,826)
Provisions	17	(9,510)	(10,508)
Lease liabilities	25	(25,487)	-
Retirement benefit obligations	6.3	(59,980)	(79,005)
		(96,358)	(91,352)
Total liabilities		(304,159)	(293,290)
Net assets		421,667	407,818
Equity			
Called up share capital	19	261,957	261,957
Revaluation Reserve	21	1,513	1,670
Retained earnings	20	158,197	144,191
Total equity		421,667	407,818

* The prior year has been restated to correctly reflect £44,235,000 of intercompany loans payable as borrowings and reclassify one intercompany loan receivable of £6,911,000 as trade and other receivables.

The notes on pages 17 – 57 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 July 2020.

Signed on behalf of the Board of Directors.

Suk Joo Kang

Director

Statement of changes in equity

As at 31 December 2019

	Called up share capital £000	Revaluation reserve £000	Retained earnings £000	Total £000
At 1 January 2018	261,957	1,670	140,293	403,920
Effect of adopting IFRS 9	-	-	(3,646)	(3,646)
Restated as at 1 January 2018	261,957	1,670	136,647	400,274
Profit for the year	-	-	312	312
Other comprehensive income for the year	-	-	7,232	7,232
Total comprehensive income for the year	-	-	7,544	7,544
At 1 January 2019	261,957	1,670	144,191	407,818
Profit for the year	-	-	1,840	1,840
Other comprehensive income for the year	-	(157)	12,166	12,009
Total comprehensive income for the year	-	(157)	14,006	13,849
At 31 December 2019	261,957	1,513	158,197	421,667

Cash flow statement

For the year ended 31 December 2019

	Note	2019 £000	2018 £000
Cash flow generated (used in) / from operations	22	(3,647)	178
Income tax (paid) / received		(43)	57
Net cash generated (used in) / from operations		(3,690)	235
Cash flows from investing activities			
Interest received on leases		19	-
Cash received on principle portion of leases		951	-
Purchase of property, plant and equipment	10	(394)	(806)
Purchase of intangible assets	9	(661)	(6)
Disposal of property, plant and equipment	10	27	-
Loans to parent and other group companies		-	(12,865)
Net cash used in investing activities		(58)	(13,677)
Cash flows from financing activities			
Interest paid		(3,902)	(1,796)
Payment of principle portion of finance leases	25	(3,968)	-
Bank loans granted		-	7,000
Loan repaid to parent and other group companies		(5,059)	(5,516)
Loans granted to other group companies		(619)	-
Increase in overdraft facility		15,912	13,860
Net cash generated from financing activities		2,364	13,548
Net (decrease) / increase in cash and cash equivalents		(1,384)	106
Effects of exchange rate changes		(387)	28
Cash and cash equivalents at the beginning of the year		2,038	1,904
Cash and cash equivalents at the end of the year		267	2,038

Notes to the financial statements
For the year ended 31 December 2019

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 land. 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 Company continues to diversify with a strategic focus on delivery excellence in engineering, aftermarket and upgrade solutions to the nuclear, oil and gas, petrochemical and process industries.

The Company has carefully analysed its cash requirements for the next 12 months after the directors sign off date and consider there to be sufficient headroom to meet going concern requirements.

Order intake for the Company increased by 61% to £583,634,000 at 31 December 2019 (2018: £362,005,000). There was a 2% reduction in revenues to £312,230,000 (2018: £318,269,000), reflecting the timing of order award coupled with a focus on quality of earnings.

The company delivered an operating profit for the year of £4,340,000 (2018: £10,426,000). This was down from last year due to one large loss-making project which will complete in 2020 and has been fully provided for. There were no restructuring costs in 2019 (2018: £2,171,000).

These factors resulted in an improved profit before tax of £3,737,000 (2018: £531,000).

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.

Covid-19 has generated additional risk and uncertainty for the business, however, it has taken steps to mitigate this by considering the different scenarios that could occur and measures that would be required to keep the business running in those scenarios through consultation with suppliers and customers. As a result of this, the business has a plan which will ensure it survives this crisis and holds regular meetings and reviews to ensure that this continues to be the case in the face of an ever-evolving situation. Due to the critical infrastructure work the Company undertakes, primarily in the energy, pharmaceutical and oil and gas sectors the level of risk posed by Covid-19 is greatly reduced. Our workforce in these areas have in large been identified as Critical Workers. The key risks to the business from Covid-19 are its ability to continue with projects if workers cannot access sites safely during lockdown and the risk of postponement of projects if customers are unable to fund projects at this time. Management note that the situation, and resultant impacts, of Covid-19 Virus are constantly developing. Management expect that these risks will result only in delay rather than cancelling of work assisted by a healthy backlog of work of over £700m. To mitigate an anticipated a short term reduction in turnover the business has implemented the furlough of some staff, pay reductions and the deferral of payments such as UK VAT. Longer term there is the risk of the effect of general economic downturn as a result of the virus which could affect the business, however it is believed that the business is more resistant to such effects as much of the work performed is critical infrastructure maintenance and service and less dependent on the economy as a whole. 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.

Notes to the financial statements (continued)

For the year ended 31 December 2019

2. Accounting policies (continued)

2.2. Going concern (continued)

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 closing the defined benefit scheme to new entrants, future accruals, liability hedging and increasing contributions. There is an investment sub-committee jointly appointed by Doosan Babcock Limited and the 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.

The Company's base case forecasts and projections, show that the Company will meet the scheduled repayments for a period of at least 12 months from the date of signing these financial statements. As part of this analysis, severe but plausible downside scenarios have been considered, such as a 10% shift in revenue from 2020 to 2021 reflecting possible delay with projects. The Company also considered a worst-case scenario which assumed refinancing of the loan with the current external loan provider was not successful and the overdraft the Company is relying upon was recalled. In this scenario, the Company would need to rely on the support of its immediate parent undertaking, Doosan Power Systems S.A. Although in the opinion of the directors such a worst-case scenario is not likely, the Board acknowledges the general uncertainty provided by COVID-19 and as such has obtained a written confirmation of financial support from its immediate parent undertaking, Doosan Power Systems S.A for a period of at least 12 months from the date of approval of these financial statements. The Directors, having made the relevant enquiries and having reviewed the Doosan Power Systems S.A's financial position in its latest filings and the cashflow forecast for Doosan Power Systems S.A. group, concluded that the Doosan Power Systems S.A. group is in a strong financial position with sufficient amounts of liquid assets available. The Board is therefore satisfied that the immediate parent undertaking has adequate resources to provide the support to the Company if it is needed.

Thus, they 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 of a business.

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);
- the completion of such intangible asset is technically feasible, and the asset will be available for use or sale;
- the entity has the intention and ability to complete the intangible asset and use or sell it;
- 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.

2. Accounting policies (continued)

2.5. Intangible assets (continued)

The expected depreciation rates are:

Goodwill	nil (note 2.4)
Development costs	20%
Software	16% to 33⅓%

Amortisation of intangible assets is charged to operating profit in the income statement. Intangible assets that do not meet the above criteria are impaired in the year that this conclusion is arrived at.

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 entire asset register is regularly reviewed and assets which are found to no longer be in use, of reduced life or to be of less value to the business than the net book value will be impaired as appropriate.

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 the income statement.

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. The current valuation of land assets was performed by independent valuers JLL for the property at Birmingham New Road in Tipton, this resulted in no change in value. This was done in order to comply with the accounting policy to reflect a more appropriate valuation of land in the Company and follow the treatment allowed by IAS 16. If the assets been accounted for using the cost model the carrying value of the land would have been £297,000. The next revaluation will occur in 2021.

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.

Notes to the financial statements (continued)

For the year ended 31 December 2019

2. Accounting policies (continued)

2.9. 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.

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. However, before a separate provision for an onerous contract is established, the Company recognises any impairment loss that has occurred on assets dedicated to that contract.

2.10. Revenue recognition

2.10.a. Principles

IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The Company has generally concluded that it is the principal in its revenue arrangements, because it typically controls the goods or services before transferring them to the customer.
The Company provides warranties to customers with assurance that the related product will function as the parties intended because it complies with agreed-upon specifications. The Company does not provide warranties as a service, in addition to the assurance that the product complies with agreed-upon specifications, in its contracts with customers. As such, the Company expects that such warranties will be assurance-type warranties which will continue to be accounted for under IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'.

2.10.b. Construction contracts

- Certain construction contracts contain multiple goods and services, but these are not distinct in the context of the contract. It is therefore appropriate to combine the services into a single performance obligation which is consistent with the previous accounting treatment.
- Services are satisfied over time given that the customer simultaneously receives and consumes the benefits provided by the Company. Consequently, the Company recognises revenue from its construction contracts over time rather than at a point of time.
- Contract modifications, e.g. variations, are accounted for as part of the existing contract or a new contract depending on the details of the contract. For material contract modifications, based on management's assessment, there may be cases where a separate contract may be recognised in line with previous practice.
- Variable consideration, e.g. variation orders, claims and liquidated damages, are assessed at contract inception and re-assessed at each reporting period using the most likely amount method.
- Contract costs are recognised in the Company income statement as an input to percentage-of-completion.
- The advance payments for construction contracts are structured primarily for reasons other than the provision of finance to the Company, and they do not provide customers with an alternative to pay in arrears. In addition, the length of time between when the customer pays and the Company transfers goods and services to the customer is relatively short. Therefore, the Company has concluded that there is not a significant financing component within such contracts. Currently, the Company does not have any contracts where payments by customer are over a number of years after the Company has transferred goods and services to the customer; if such cases arise in future the transaction price for such contracts will be determined by discounting the amount of promised consideration using an appropriate discount rate
- Pre-contract/bid costs were previously recognised as an expense until there was a high probability that the contract would be awarded. The Company capitalises pre-contract/bid costs, where such costs are incremental to the contract and are expected to be recovered, as an asset and will expense it over the life of the contract.
- Contract assets and contract liabilities for individual customers are presented on a net basis

Notes to the financial statements (continued)

For the year ended 31 December 2019

2. Accounting policies (continued)

2.10. Revenue recognition (continued)

2.10.c. 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 control to the buyer.

2.11. 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.

2.12. 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.

The cost of the Company's defined benefit plans is determined in accordance with IAS 19 (revised): "Employee benefits" with the advice of independent professionally qualified actuaries on the basis of formal actuarial valuations using the projected unit credit method. In line with normal practice, these valuations are undertaken triennially in the UK.

Defined contribution scheme

The Company also operates a defined contribution pension scheme. 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.

2.13. Operating profit

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

Notes to the financial statements (continued)

For the year ended 31 December 2019

2. Accounting policies (continued)

2.14. Financial instruments

2.14.a. Impairment

IFRS 9 requires the Company to record expected credit losses on of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Company has applied the simplified approach and record lifetime expected losses on all loans and receivables, trade receivables, retention receivables, amounts due from customers and bank balances.

2.14.b. 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. Changes in the fair value of derivatives are recognised in the income statement.

Hedge accounting

The Company does not apply hedge accounting.

2.14.c. Financial assets

All financial assets are recognised and derecognised on a specific 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 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.

2.14.d. Financial liabilities

Financial liabilities within the scope of IFRS9 are classified as loans and borrowings, financial liabilities at fair value through profit or loss, payables, 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, net of transaction costs, carried at amortised cost. The Company's financial liabilities include trade and other payables, borrowings and derivative financial instruments.

Notes to the financial statements (continued)

For the year ended 31 December 2019

2. Accounting policies (continued)

2.14. Financial instruments (continued)

2.14.d Financial liabilities (continued)

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.

2.14.e.Foreign currencies

The financial statements of the Company are presented in Pounds Sterling which is the Company's functional currency.

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 12.5); 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.

2.15. 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. Investments are held at cost less any provision for impairment.

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.

2.16. IFRS 16 Leases

In 2018, the Company assessed the effect of IFRS 16 on its financial statements and has adopted the standard on 1 January 2019 applying the modified retrospective approach. Before IFRS 16 became effective, the Company, as lessee, applied IAS 17 and classified each of its leases at the inception date as either finance lease or operating lease. A lease was classified as a finance lease if it transferred substantially the risk and rewards of ownership to the Company, otherwise, as was usually the case, it was classified as an operating lease. Operating leases were charged to the income statement on a straight-line basis over the lease term.

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in IAS 17. The Company does have one building for which it acts as a lessee and lessor and in this case the company does capitalise the receipts expected in its capacity as lessor. This is discussed further below.

The following practical expedients have been applied in adopting IFRS 16:

- We have applied a single discount rate of 4% to our portfolio of building leases at 1 January 2019. This rate was calculated as weighted average incremental borrowing rates for the Company. Rates used for cars were at the implicit rate provided by the leasing company.
- The Company also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (short-term leases), and lease contracts for which the underlying asset is of low value, that being under £5,000 per asset (low-value assets).
- We have excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application.
- We have used hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

The Company adopted IFRS 16 using the modified retrospective method of adoption, with the date of initial application of 1 January 2019. The prior-year figures were not adjusted. On adoption the right of use asset was calculated to be the same as the discounted liability on the lease, calculated as the sum of all committed payments discounted at the rates noted above. The Company elected to use the transition practical expedient to not reassess whether a contract is, or contains, a lease at 1 January 2019. Instead, the Company applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

Company as a lessee

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

2.16.a. Right-of-use assets

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

- Plant and machinery 2 to 5 years
- Land and Buildings 2 – 15 years
- Motor vehicles and other equipment 3 to 5 years

If ownership of the leased asset transfers to the Company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment in the same manner as Property Plant and Equipment (note 2.6).

2.16.b. Lease liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating the lease, if the lease term reflects the Company exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

Notes to the financial statements (continued)

For the year ended 31 December 2019

2. Accounting policies (continued)

2.16. IFRS 16 Leases (continued)

2.16.c. Lease liabilities (continued)

In calculating the present value of lease payments, the Company uses its incremental borrowing rate (IBR) at the lease commencement date wherever the interest rate implicit in the lease is not readily determinable. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The Company estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating). For Car leases the implicit rate as supplied by the lease company is used, the majority of car leases are of this nature. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is re-measured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset. The Company's lease liabilities are included in Interest-bearing loans and borrowings. At the end of 2018 the Company had lease commitments of £30,181,000 and these were replaced with a lease liability of £26,422,000 on 1 January 2019 which is a lower amount as the commitment figure was not discounted.

2.16.d. Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases of cars, machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term.

2.16.e. Company as lessor

The Company also acts as lessor on the building it occupies in Crawley. In this case it is a sublease and so it acts as both lessee and lessor and must apply IFRS 16 accounting in its capacity as lessor. To achieve this an asset to the value of the total lease receivable discounted at 4%, £1,873,000, was recognised on 1 January 2019 and the element of the head lease relating to this sublease £1,861,000 was deducted from the right of use asset, resulting in a gain of £12,000 arising from the difference between these two amounts. Rental income received on this lease is deducted against this asset whilst the interest receivable is added to it.

The effect of adopting IFRS 16 is, as follows:

Impact on the statement of financial position (increase/(decrease)):	**31 December 2019**	**1 January 2019**
Assets	**£000**	**£000**
Right of use assets	29,160	24,561
Lease receivable	921	1,873
Total assets	30,081	26,434
Lease liabilities	(30,595)	(26,422)

Impact on the income statement (increase/(decrease)):	**2019**	**2018**
	£000	**£000**
Cost of sales	27	-
Administrative expenses	600	-
Operating profit	627	-
Gain on set up of sub lease	12	-
Finance costs	(1,182)	-
Finance income	19	-
Income tax expense	99	-
Profit for the period	(425)	-

The above table shows the impact on the 2019 income statement of adoption on 1 January 2019

Impact on the consolidated statement of Cash flows (increase/(decrease)):	**2019**	**2018**
	£000	**£000**
Cashflows from operating activities	4,180	-
Interest paid	(1,182)	-
Interest received	19	-
Receipts from lease assets	951	-
Payment of principal portion of lease liabilities	(3,968)	-
Net cash flows from finance activities	(4,180)	-

Notes to the financial statements (continued)

For the year ended 31 December 2019

2. Accounting policies (continued)

2.17. IFRIC Interpretation 23 of uncertainty over Income tax treatment

The Company considers uncertain tax treatments separately or together depending on which approach better predicts the resolution of the uncertainty.

The Company applies its judgement in identifying uncertainties over income tax treatments. Since the Company operates in a complex multinational environment, it assessed whether the interpretation had an impact on its consolidated financial statements.

The Company's and the subsidiaries' tax filings in different jurisdictions may include amounts which reflect complex transactions and the taxation authorities may challenge the tax treatments adopted. The Company determined, based on tax legislation and advice from external advisers, that it is likely its adopted tax treatments should be accepted by the taxation authorities. The interpretation did not have an impact on the consolidated financial statements.

2.18. Adoption of new and revised standards

The Company has adopted amendments issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2019. These were:

- IFRS 16 Lease resulted in an increase in assets of £30,081,000 and an increase in liabilities of £30,595,000 as of 31 December 2019.
- IFRIC Interpretation 23 of uncertainty over Income tax treatment did not have a material impact on the Company's financial performance or position.

At the date of authorisation of these financial statements, the Company 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):

2.18.a. Amendments to IAS1 and IAS 8 Definition of Material

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'
The amendments to the definition of material is not expected to have a significant impact on the Group's consolidated financial statements. The changes are effective from 1 January 2020, with earlier application permitted. The Group will apply these amendments when they become effective.

2.18.b. Amendments to IAS1 Classification of liabilities as current or non-current

The amendments in Classification of Liabilities as Current or Non-Current (Amendments to IAS 1) affect only the presentation of liabilities in the statement of financial position — not the amount or timing of recognition of any asset, liability income or expenses, or the information that entities disclose about those items. They:

- clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the "right" to defer settlement by at least twelve months and make explicit that only rights in place "at the end of the reporting period" should affect the classification of a liability;
- clarify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability; and
- make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and are to be applied retrospectively. Earlier application is permitted.

2.18.c. Amendments to IFRS 9, IAS 39 and IFRS 7

The IASB has issued amendments to IFRS 9, IAS 39 and IFRS 7 that provide certain reliefs in connection with interest rate benchmark reform. The amendments:

- modify specific hedge accounting requirements so that entities would apply those hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform;
- are mandatory for all hedging relationships that are directly affected by the interest rate benchmark reform;
- are not intended to provide relief from any other consequences arising from interest rate benchmark reform (if a hedging relationship no longer meets the requirements for hedge accounting for reasons other than those specified by the amendments, discontinuation of hedge accounting is required); and
- require specific disclosures about the extent to which the entities' hedging relationships are affected by the amendments

The amendments are be effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Early application is permitted.

Notes to the financial statements (continued)

For the year ended 31 December 2019

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

3.1. Key Sources of estimation and 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.

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.

Significant judgements in applying the Company's accounting policies

The following are the significant estimates 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.

3.2. Revenue and margin recognition

The Company's revenue recognition and margin recognition policies, which are set out in note 2.10 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.

3.3. 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 2019 charge to the income statement to different actuarial assumptions. At 31 December 2019 the defined benefit liability recognised on the Company's statement of financial position was £59,980,000 (2018: £79,005,000). 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 2019 the Company recognised net actuarial gain of £14,657,000 (2018: £8,714,000 gain) in equity. A sensitivity analysis in respect of these is set out in note 6.3. The Company also recognised an adjustment of £5,771,000 through the Income Statement to reflect the High Court ruling on the equalisation of Guaranteed Minimum Pensions in 2018, there was no adjustment in 2019.

3.4. 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.

3.5. Long term provisions

Other provisions include an amount of £9,344,000 (2018: £8,814,000) 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. Further, Management are required to make an estimate as to the total volume of the claims.

Notes to the financial statements (continued)

For the year ended 31 December 2019

4. Revenue and Non-Current Assets

4.1. Revenue by Destination

	2019 £000	2018 £000
United Kingdom	302,178	300,346
Korea	4,377	9,121
France	3,968	8,540
Other	1,707	262
	312,230	318,269

4.2. Revenue by Origin

	2019 £000	2018 £000
Revenue from construction contracts and related services	312,230	318,269

All revenue in the Company originates from the United Kingdom.

Revenue for construction services is to be recognised over time because the customer simultaneously receives and consumes the benefits provided by the Company. The fact that another entity would not need to re-perform the installation that the Company has provided to date demonstrates that the customer simultaneously receives and consumes the benefits of the Company's performance as it performs. There has not been any revenue recognised from performance obligations satisfied in previous periods.

All of the Company's non-current assets are located in the United Kingdom.

5. Company Profit

5.1. Company Profit is stated after charging / (crediting)

	2019 £000	2018 £000
Property, plant and equipment:		
Depreciation of owned assets	1,058	1,405
Intangible assets:		
Amortisation of software	520	512
Amortisation of capitalised development expenditure	-	41
Rentals under IAS 17 operating leases:		
Land and buildings	-	5,108
Hire of plant and machinery	-	1,032
Research and development:		
Revenue expenditure	3,578	3,666
Funding received to fund revenue expenditure	(2,351)	(3,605)
Restructuring costs	-	2,171
Exchange losses / (gains)	4,158	(1,665)

5.2. Auditor's remuneration

	2019 £000	2018 £000
Audit of these financial statements *	410	317

*The fees quoted include the costs of auditing the Doosan Power Systems SA group accounts.

Notes to the financial statements (continued)

For the year ended 31 December 2019

6. Employees and directors

6.1. Employee numbers and staff costs

	2019 £000	2018 £000
Average monthly number of persons employed during the year (including directors employed):		
Production	2,539	2,478
Sales and administration	170	190
Research and development	60	51
	2,769	2,719

	2019 £000	2018 £000
Staff costs during the year (Including directors employed):		
Wages and salaries	147,368	140,902
Social security costs	15,152	14,296
Other pension costs	13,721	6,708
	176,241	161,906

6.2. Remuneration of directors

	2019 £000	2018 £000
Directors' emoluments:		
Current pay and benefits	554	513
Post-employment benefits	5	3
Social security costs	29	26
	588	542

The aggregate emoluments of the highest paid Director were £324,789 (2018: £304,298).

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 2019

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 £3,990,000 (2018: £3,597,000) 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. This is in part mitigated by interest rate hedging.

• 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 2016 have been updated to 31 December 2019 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.

The major assumptions used by the actuary were:

	2019	2018
Financial assumptions:		
Discount rate	2.00%	2.80%
Rate of increase in pensionable salaries	N/A	N/A
Rate of increase in pensions in payment (post-May 2002 service)	3.05%-3.40%	3.25%-3.55%
Rate of increase in pensions in payment (pre-May 2002 service)	3.10%	3.35%
Inflation assumption (and increases to pension in deferment)	3.10%	3.35%
Demographic assumptions:		
Pre-retirement mortality (male/female)	99%/109% S1NA/S1NFA, CMI 2018 +1.25% MI	99%/109% S1NA/S1NFA, CMI 2017 +1.25% MI
Post-retirement mortality for non-pensioner members (male/female)	99%/109% S1NA/S1NFA, CMI 2018 +1.25% MI	99%/109% S1NA/S1NFA, CMI 2017 +1.25% MI
Post-retirement mortality for pensioner members (male/female)	99%/109% S1NA/S1NFA, CMI 2018 +1.25% MI	99%/109% S1NA/S1NFA, CMI 2017 +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.

6. Employees and directors (continued)

6.3. Post-retirement benefits (continued)

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:

		2019		2018
	%	£000	%	£000
Diversified growth fund				
SGMF Dynamic Fund	17.8%	76,757	15.1%	58,481
SGIF Global Select Equity Fund	7.4%	32,030	6.4%	24,887
Bonds				
SEI UK Property Fund	4.0%	17,312	4.4%	16,976
SGMF Liquid Hedged Fund	5.5%	23,665	4.4%	16,999
Return Fixed Income	27.4%	118,372	26.8%	104,008
Risk Management Fixed Income	32.7%	141,103	36.4%	141,250
Cash				
Trustee bank account	0.4%	1,630	1.1%	4,124
Share in SLP	4.8%	20,503	5.4%	20,837
Total market value of assets		431,372		387,562
Present value of liabilities		(491,352)		(466,567)
Deficit in scheme		(59,980)		(79,005)
Related deferred tax asset		10,196		13,430
Net pension liability		(49,784)		(65,575)

All of the funds and bonds are quoted with a price in an active market

Sensitivity analysis

The 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 +/- 100 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
1% increase in the discount rate	-76.2
1% decrease in the discount rate	+96.8
1% increase in the inflation rate	+49.6
1% decrease in the inflation rate	-32.9
Increase in Mortality of 1 year	+24.6
Decrease in mortality of 1 year	-24.6

Notes to the financial statements (continued)

For the year ended 31 December 2019

6. Employees and directors (continued)

6.3. Post-retirement benefits (continued)

Reconciliation of present value of plan liabilities and assets:

	2019 £000	2018 £000
Change in the present value of the defined benefit obligation:		
Opening defined benefit obligation	466,567	492,457
Interest cost	12,789	12,017
Changes in demographic assumptions	(10,954)	(4,079)
Actuarial losses	42,583	(16,063)
Past service costs	-	5,771
Benefits paid	(19,633)	(23,536)
Closing defined benefit obligation	491,352	466,567
Change in the fair value of plan assets:		
Opening fair value of plan assets	387,562	410,573
Interest income	10,668	9,995
Actuarial gains / (losses)	46,286	(11,428)
Contributions by employer	9,731	5,069
Benefits paid	(19,633)	(23,536)
Other expenses	(3,242)	(3,111)
Closing fair value of plan assets	431,372	387,562

	2019 £000	2018 £000
Net change in the present value of plan liabilities and assets:		
Opening deficit	79,005	81,884
Net interest expense	2,121	2,022
Net actuarial (gains) / losses	(14,657)	(8,714)
Contributions by employer	(9,731)	(5,069)
Impact of GMP ruling	-	5,771
Administrative expenses	3,242	3,111
Closing deficit	59,980	79,005

The expected contributions in 2020 are £10,906,000. The actual contributions in 2019 were £9,731,000.

Analysis of other comprehensive income:

	2019 £000	2018 £000
Actual return less expected return on scheme assets	46,286	(11,428)
Changes in assumptions underlying the scheme liabilities	(31,629)	20,142
Net actuarial gains recognised in the period	14,657	8,714
Deferred tax	(2,491)	(1,482)
Actuarial gain net of tax	12,166	7,232
Net cumulative actuarial losses after tax	(94,622)	(106,788)

Expense recognised in the income statement:

	2019 £000	2018 £000
Net interest expense	2,121	2,022
Defined benefit pension scheme expenses	3,242	8,882
Total	5,363	10,904

Notes to the financial statements (continued)

For the year ended 31 December 2019

7. Finance income and costs

	2019 £000	2018 £000
Net Interest receivable on loans to parent and subsidiary undertakings	14,536	13,759
Foreign exchange gains	1,403	2,243
Lease interest income	19	-
Dividend received	-	2,500
Total finance income	15,958	18,502
Interest payable	(2,660)	(2,269)
Unwinding of discounting	(240)	(430)
Interest charged under leases	(1,182)	-
Foreign exchange losses	(5,561)	(578)
Net finance cost on defined benefit scheme	(2,121)	(2,022)
Total finance cost	(11,764)	(5,299)
Net Finance income	4,194	13,203

8. Taxation

8.1. Taxation Charge

	2019 £000	2018 £000
Current tax:		
Current tax on profits for the year	533	276
Adjustments in respect of prior periods	940	-
Total current tax	1,473	276
Deferred tax:		
Origination and reversal of temporary differences	325	1,293
Adjustment in respect of prior year	(41)	-
Withholding Tax	(603)	(358)
Deferred tax on pension charge	743	(992)
Total deferred tax (Note 18)	424	(57)
Total tax charge	1,897	219

Notes to the financial statements (continued)

For the year ended 31 December 2019

8. Taxation (continued)

8.2. *Factors affecting tax charge for the year*

The current tax assessed for the period is lower (2018: lower) than the standard rate of corporation tax in the UK of 19% (2018: 19%). The differences are explained below:

	2019 £000	2018 £000
Profit before tax	3,737	531
Tax on profit before taxation at standard UK corporation tax rate of 19% (2018: 19%)	710	101
Tax effect of expenses that are not deductible in determining taxable profit	301	(766)
Difference between rate applied and deferred tax rate	(118)	44
R&D Expenditure credit	62	-
Overseas taxes	43	57
Adjustment in respect of prior periods	899	783
Tax charge for year	1,897	219

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 19% (2018: 19%).

The Finance Act 2016 provided for a reduction in the main rate of UK corporation tax to 17% effective from 1 April 2020 and this rate has been reflected in the calculation of deferred tax at the reporting date. The 2020 budget proposed that the rate from April 2020 will remain at 19%, but this had not been substantively enacted at the year end and so the closing deferred tax balances (see note 18) as at 31 December 2019 have been calculated at 17% reflecting the tax rate at which the balances are expected to be utilised or reversed in future periods.

On 17 March 2020 the proposal to keep the rate at 19% was substantively enacted. Had this change been reflected in the accounts it would have resulted in a £1.1 million increase in the deferred tax asset. This would have arisen via £1.4 million credit to the Income statement and a £0.3 million charge to other comprehensive income over and above this.

8.3. Tax recognised in other comprehensive income

	Before tax £000	Tax charge £000	After tax £000
2019			
Relating to actuarial movement in retirement benefit obligations	14,657	(2,491)	12,166
Relating to revaluation of land in prior years	-	(157)	(157)
Total Income.tax recognised in Other Comprehensive income	14,657	(2,648)	12,009
2018			
Relating to actuarial movement in retirement benefit obligations	8,714	(1,482)	7,232
Relating to revaluation of land	-	-	-
Total Income tax recognised in Other Comprehensive income	8,714	(1,482)	7,232

Notes to the financial statements (continued)

For the year ended 31 December 2019

9. Intangible assets

	Goodwill £000	Development expenditure £000	Software * £000	Total
Cost				
At 1 January 2018	971	11,320	28,097	40,388
Additions	-	-	6	6
At 1 January 2019	971	11,320	28,103	40,394
Additions	-	-	661	661
Reclassification	-	(299)	299	-
Write off **	-	(9,182)	(193)	(9,375)
At 31 December 2019	971	1,839	28,870	31,680
Amortisation				
At 1 January 2018	376	6,845	22,187	29,408
Amortisation during the year	-	41	512	553
Impairment during the year **	-	4,079	4,851	8,930
At 1 January 2019	376	10,965	27,550	38,891
Amortisation during the year	-	-	520	520
Impairment during the year **	-	-	128	128
Write off **	-	(9,126)	-	(9,126)
At 31 December 2019	376	1,839	28,198	30,413
Net book value at				
31 December 2018	595	355	553	1,503
31 December 2019	595	-	672	1,267

* Included within software is the cost of setting up the enterprise, resource and planning system, Oracle, which went live in 2013. This had a cost of £22,132,000 and net book value of £Nil at the end of the year (2018: £418,000). In 2018 an impairment of £4,533,000 was taken on this asset reflecting the reduced need for additional capabilities of Oracle following the change in organisational structure at the start of 2018. This asset has a useful life running until the end of 2019 and the remaining net book value will be amortised evenly over this time.
** The impairment and write off relates to costs incurred in the development of a number of technologies that would be used in business areas that the company is no longer pursuing as a result of a change of strategy.

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

The Company tests goodwill annually for impairment or more frequently if there are indicators that the goodwill might be impaired. The goodwill relates to one CGU, relating to Nuclear decommissioning and the recoverable amount from this CGU is determined from value-in-use calculations. They are based on detailed business plans stretching over the next five years which are derived from expected on-going work from existing customers and new potential contracts when they are likely to be won. These projections are approved by the Board. The pre-tax discount rate used was 7.80% (2018: 9.4%) and the post-tax rate was 7.75% (2018: 7.8%).

The cash flows calculated for the impairment test have been discounted using the post-tax discount rates noted above calculated by applying updated market inputs to the capital asset pricing model. Cash flow projections beyond the five-year period have been extrapolated on the basis of a 2% growth rate. Such a growth rate does not exceed the long-term average growth rate of the sector.

No impairment was indicated from the calculations performed.

Notes to the financial statements (continued)

For the year ended 31 December 2019

10. Property, plant and equipment

	Land £000	Buildings £000	Plant and equipment £000	Assets in the course of construction £000	Total £000
Cost					
At 1 January 2018	2,120	5,368	59,596	521	67,605
Additions	-	159	362	285	806
Disposals	-	-	(35)	-	(35)
Reclassification	-	-	617	(617)	-
At 1 January 2019	2,120	5,527	60,540	189	68,376
Additions	-	-	195	199	394
Disposals	-	-	(81)	-	(81)
At 31 December 2019	2,120	5,527	60,654	388	68,689
Depreciation					
At 1 January 2018	-	4,334	55,296	-	59,630
Charge for the period	-	213	1,192	-	1,405
Disposals	-	-	(35)	-	(35)
Impairment during the year	-	-	2,165	-	2,165
At 1 January 2019	-	4,547	58,618	-	63,165
Charge for the period	-	117	941	-	1,058
Disposals	-	-	(74)	-	(74)
Impairment during the year	-	-	-	-	-
At 31 December 2019	-	4,664	59,485	-	64,149
Net book value at					
At 31 December 2018	2,120	980	1,922	189	5,211
At 31 December 2019	2,120	863	1,169	388	4,540

In November 2019 a revaluation of land assets was performed by an independent valuers JLL for the property at Birmingham New Road in Tipton, this resulted in no change in value. This was done in order to comply with the accounting policy to reflect a more appropriate valuation of land in the Company and follow the treatment allowed by IAS 16. If the assets been accounted for using the cost model the carrying value of the land would have been £297,000. The next revaluation will occur in 2021.

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 2019

11. Investments in subsidiaries and associates

	Subsidiaries £000	Total £000
Cost		
At 1 January 2018	2,201	2,201
At 1 January 2019	2,201	2,201
At 31 December 2019	2,201	2,201
Impairment		
At 1 January 2018	(1,171)	(1,171)
Charge for the year	(30)	(30)
At 1 January 2019	(1,201)	(1,201)
Charge for the year	-	-
At 31 December 2019	(1,201)	(1,201)
Net Book Value at		
At 31 December 2018	1,000	1,000
At 31 December 2019	1,000	1,000

Direct subsidiaries of the Company:

All 100% owned unless otherwise stated:	Notes	Registered Office
Principal subsidiary undertakings:		
Doosan Babcock General Maint Services L.L.C. (49%).	AD	Ittihad Complex, Mussafah, Sector M-15 PLOT No 41 Abu Dhabi, UAE
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:		
Doosan Babcock W.L.L (49%)	AE	Level 1, Brooq Building, Bin Mahmoud, Doha Qatar

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 this company is 49%, Doosan Babcock exercises control over it through holding 3-1 positions on the board, appointing its own local General manager and having entitlement to 90% of profits from this company. Therefore, the Directors consider that Doosan Babcock exercises full control over this company and are classifying it as a subsidiary accordingly.

E The shareholding of this company is 49%, Doosan Babcock exercises joint control over it through holding 3-3 positions on the board, therefore it has been classified as a joint venture.

Notes to the financial statements (continued)

For the year ended 31 December 2019

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 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	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 Czech s.r.o. (formerly AE & E Lentjes Praha s.r.o.)	3	A	Sokolovská 668/136d, 18600 Praha 8, Czech Republic
Investments at fair value:			
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

Liquidations

Doosan Babcock Energy Technologies (Shanghai) Limited was liquidated on 14 January 2019

Doosan Lentjes UK Limited (formerly AE&E Lentjes UK Limited) was liquidated on 16 April 2019

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 2019

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 2.14.

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	Financial Liabilities at amortised cost £000	Derivatives £000	Total £000
2019				
Financial assets				
Cash and cash equivalents	267	-	-	267
Trade and other receivables	650,888	-	-	650,888
Derivatives	-	-	258	258
Total	651,155	-	258	651,413
Financial Liabilities				
Trade and other payables	(62,049)	-	-	(62,049)
Derivatives	-	-	(5)	(5)
Borrowings	-	(120,711)	-	(120,711)
Leases	-	(30,595)	-	(30,595)
Total	(62,049)	(151,306)	(5)	(213,360)

	Receivables / (payables) cash and cash equivalents £000	Financial Liabilities at amortised cost £000	Derivatives £000	Total £000
2018 Restated (see note 14)				
Financial assets				
Cash and cash equivalents	2,038	-	-	2,038
Trade and other receivables	650,245	-	-	650,245
Derivatives	-	-	466	466
Total	652,283	-	466	652,749
Financial Liabilities				
Trade and other payables	(75,202)	-	-	(75,202)
Derivatives	-	-	(208)	(208)
Borrowings	-	(106,375)	-	(106,375)
Total	(75,202)	(106,375)	(208)	(181,785)

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

Aside from derivatives and intercompany loans (see note 14), 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 2019

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
2019						
At fair value through profit or loss	258	-	258	(5)	-	(5)
Total	258	-	258	(5)	-	(5)
2018						
At fair value through profit or loss	466	-	466	(195)	(13)	(208)
Total	466	-	466	(195)	(13)	(208)

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

	2019 Receivable £000	2019 Payable £000	2019 Total £000	2018 Receivable £000	2018 Payable £000	2018 Total £000
Maturing within:						
One year	6,976	(6,723)	253	23,213	(22,942)	271
One to two years	-	-	-	253	(266)	(13)
Two to five years	-	-	-	-	-	-
Total	6,976	(6,723)	253	23,466	(23,208)	258

12.3. Maturity of Financial Payables

The table below shows the maturity profile of financial payables excluding future interests:

	2019 Other Payables £000	2019 Lease Liabilities £000	2019 Borrowings £000	2019 Total £000	2018 Other Payables £000	2018 Lease Liabilities £000	2018 Borrowings £000	2018 Total £000
Maturing within:								
One year	62,049	5,101	120,711	187,861	75,202	-	106,375	181,577
One to two years	-	4,169	-	4,169	-	-	-	-
Two to five years	-	10,922	-	10,922	-	-	-	-
More than 5 years	-	10,403	-	10,403	-	-	-	-
Total	62,049	30,595	120,711	213,355	75,202	-	106,375	181,577

Notes to the financial statements (continued)

For the year ended 31 December 2019

12. Financial instruments (continued)

12.4. 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). The investment is held at cost value less any impairment which has occurred.

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
2019				
Financial assets – foreign currency contracts	-	258	-	258
Total assets measured at fair value	-	258	-	258
Financial liabilities – foreign currency contracts	-	(5)	-	(5)
Total liabilities measured at fair value	-	(5)	-	(5)

2018				
Financial assets – foreign currency contracts	-	466	-	466
Total assets measured at fair value	-	466	-	466
Financial liabilities – foreign currency contracts	-	(208)	-	(208)
Total liabilities measured at fair value	-	(208)	-	(208)

12. Financial instruments (continued)

12.5. 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.

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.

The notional principal amounts of foreign exchange contracts in respect of foreign currency transactions where hedge accounting is not applied is £7m (2018: £23m).

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.

Notes to the financial statements (continued)

For the year ended 31 December 2019

12. Financial instruments (continued)

12.5. Financial risk factors (continued)

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 counter party.

The Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

The Company uses a provision matrix to calculate expected credit losses (ECLs) for trade receivables and contract assets. The provision rates are based on days past due for the entire receivable portfolio and rates of delinquency by customer for the largest customers, which covers over 90% of the overall balance receivable, billed and unbilled.

Following this initial assessment, the Company will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in a particular customer the default rates are adjusted.

This assessment of ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The information about the provision against the Company's trade receivables and contract assets is disclosed in Note14.

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.

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.

Loans outstanding at the end of 2019

- Revolving credit facility with Standard Chartered Bank which was fully utilised with an amount of £25m at 31 December 2019 (2018: £25m). There are no hedges against the interest rate of 3m LIBOR +2.75%.
- At 31 December 2019 the Company has an overdraft facility with notional pooling agreement through the parent company (DPS S.A) with HSBC for £45m across the group (2018: £45m) of which a net of £39.9m (2018: £8.3m) was utilised within the group as a whole and £53.1m by the Company (2018: £37.2m) with an interest rate of Bank of England Base Rate + 2.75%.The excess over the facility is covered via a pooling arrangement with parent company Doosan Power Systems S.A.

A 1% increase in interest rates would have resulted in an additional £565,000 (2018: £510,000) of interest payable. A 1% reduction in interest rates would have resulted in a reduction in interest payable of £565,000 (2018: £510,000). This is calculated by adding up the net of all interest paid and received during the year on all loans that are not fixed interest and estimating what the charge would have been if interest rates were 1% higher or lower. All the loans are based on Libor and so are unlikely to be subject to large fluctuations in interest rates, therefore 1% is considered a reasonable movement on which to base the calculation.

Notes to the financial statements (continued)

For the year ended 31 December 2019

12. Financial instruments (continued)

12.6. Summary of financial Instruments in currencies

The below figures are all stated as GBP equivalents.

	GBP £000	CZK £000	USD £000	EUR £000	Other £000	Total £000
2019						
Cash, cash equivalents and other financial assets	88	12	-	117	50	267
Financial derivatives	258	-	-	-	-	258
Trade and other receivables	643,570	-	(4)	2,823	4,499	650,888
Total	643,916	12	(4)	2,940	4,549	651,413
Financial derivatives	(5)	-	-	-	-	(5)
Trade and other payables	(58,781)	(35)	(804)	(2,187)	(242)	(62,049)
Leases	(30,595)	-	-	-	-	(30,595)
Borrowings	(78,018)	-	-	(42,693)	-	(120,711)
Total	(167,399)	(35)	(804)	(44,880)	(242)	(213,360)
Net total	476,517	(23)	(808)	(41,940)	4,307	438,053
2018 Restated (see note 14)						
Cash, cash equivalents and other financial assets	5	13	-	2,020	-	2,038
Financial derivatives	466	-	-	-	-	466
Trade and other receivables	635,771	-	2,469	9,335	2,670	650,245
Total	636,242	13	2,469	11,355	2,670	652,749
Financial derivatives	(208)	-	-	-	-	(208)
Trade and other payables	(70,275)	(36)	(1,283)	(2,987)	(621)	(75,202)
Loans from group undertakings	-	-	-	(44,235)	-	(44,235)
Borrowings	(62,211)	-	(1)	-	72	(62,140)
Total	(132,694)	(36)	(1,284)	(47,222)	(549)	(181,785)
Net total	503,548	(23)	1,185	(35,867)	2,121	470,964

The Company has assets and liabilities in foreign currencies, principally US Dollars, Euros and Czech Koruna. The effect on the income statement of a 20% movement in the rates would be £7.0m each way. This was calculated by adding up the value of all assets and liabilities held in all companies in the Company which were not in their local currency and converting the amounts into Pound Sterling. The risk is then assumed to be 20% of this amount. Given the fluctuations in our principal foreign currencies, which are noted above, against the Pound Sterling during and after the year-end, the directors have determined that 20% fluctuations from the year-end rates are a reasonable possibility and have therefore used this percentage as a basis for their assessment.

Notes to the financial statements (continued)

For the year ended 31 December 2019

13. Inventory

	2019 £000	2018 £000
Raw materials and consumables	365	389
Work in Progress	13	-
Inventory allowance	(38)	(38)
	340	351

14. Trade and other receivables

14.1. Trade and other receivables

	2019 £000	2018 £000 Restated *
Current:		
Trade receivables	15,648	30,852
Expected credit loss for trade receivables	(487)	(429)
Amounts owed by joint ventures	1,854	802
Amounts owed by group undertakings	40,590	35,959
Other taxes receivable	2,615	2,878
Other receivables	4,407	2,760
Prepayments	6,011	6,624
Accrued income	9,718	14,983
Lease receivable	921	-
Total receivables	81,277	94,429

* The prior year has been restated to correctly reflect £44,235,000 of intercompany loans payable as borrowings and reclassify one intercompany loan receivable of £6,911,000 as trade and other receivables. See also notes 15 and 16.

	2019 £000	2018 £000
Non - Current:		
Trade receivables	2,826	2,825
Expected credit loss for trade receivables	(1,387)	(1,387)
Amounts owed by the parent company	438,709	429,238
Amounts owed by subsidiary undertakings	99,705	99,823
Expected credit loss for amounts owed by group companies	(2,577)	(2,388)
Total receivables	537,276	528,111

Notes to the financial statements (continued)

For the year ended 31 December 2019

14. Trade and other receivables (continued)

Included in non-current receivables are the following related party loans showing the initial principle amounts and terms of the loans:

- Loan to Doosan Power Systems SA for £380.2m (2018: £368.8m). This loan is for a period of 12 months from 5 December 2018 and will be renewed automatically for a further period of 12 months from the expiry date and any further expiry date thereof until either party gives at least 30 days written notice prior to such an expiry date to terminate this agreement. The interest rate on this loan is 12m LIBOR + 2%.
- Loan to Doosan Power Systems SA for £58.5m (€68.5m) (2018: £60.3m (€67.0m)) which is denominated in Euros. This loan is renewed automatically every year for a period of 12 months until either party gives at least 30 days written notice prior to such an expiry date to terminate this agreement. The interest rate on this loan is 6m EURIBOR + 2.5%.
- Loan to Doosan Power Systems Overseas Investment Ltd for £64.5m (2018: £62.5m). This loan is renewed automatically every year for a period of 12 months until either party gives at least 30 days written notice prior to such an expiry date to terminate this agreement. The interest rate on this loan is 12m LIBOR + 2%.
- Loans to Doosan Babcock General Maintenance Services LLC for £16.7m (AED 81.1m) (2018: £16.5m (AED 77.0m)). This loan is a working capital loan and it is renewed automatically on an annual base, the interest on this loan is 1m EIBOR + 2.75%.
- Loans to Doosan Babcock General Maintenance Services LLC for £0.6m (AED 3m) (2018: Nil). This loan is a working capital loan and it is due for repayment in December 2020, the interest on this loan is 1m EIBOR + 2.75%.
- Loans to Doosan Power System Europe for £10.8m (€12.7m) (2018: £11.0m (€12.2)). This loan is arising from Doosan Babcock Energy German profit share settlement. The interest rate on this loan is 12m EURIBOR + 2.75%.
- Loans to Doosan Lentjes GmbH for (€7.6m) £6.4m (2018: £6.5m (€7.2m)). This loan is a working capital loan and it is renewed automatically on an annual base. The interest rate on the loan is BOE base rate +2.75%
- Loans to Doosan Power System Europe for £4.3m (€5.0m) (2018: €5.0m £4.5m). This loan is to clear an overdraft. The interest rate on this loan is 6m EURIBOR + 1.05%.

These receivables are classified as non-current as they are not expected to be repaid within the next 12 months.

14.2. Expected credit loss allowance for 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.

Expected credit loss for trade receivables	2019 £000	2018 £000
Balance as at 1 January	(1,816)	(687)
Initial application of IFRS 9	-	(314)
(Charged) / credited to the income statement:		
Increase in expected credit loss	(30)	(1,269)
Utilised / (unutilised) expected credit loss	(28)	454
Balance at 31 December	(1,874)	(1,816)
Of which relates to:		
Trade receivables due <1 year	(487)	(429)
Trade receivables due >1 year	(1,387)	(1,387)
	(1,874)	(1,816)

Notes to the financial statements (continued)

For the year ended 31 December 2019

14. Trade and other receivables (continued)

14.2. Expected credit loss allowance for receivables (continued)

Intercompany expected credit loss	2019 £000	2018 £000
Balance as at 1 January	(2,388)	(2,346)
Charged to the income statement:		
Utilised provisions	-	-
Increase of provisions	(189)	(42)
Initial application of IFRS 9	-	-
Balance at 31 December	(2,577)	(2,388)

The expected credit loss for 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:

	Trade Receivables £000	ECL Applied %	Expected credit loss £000	Not impaired £000
2019				
Current	14,465	0.2%	33	14,432
Up to 3 months	1,776	0.3%	5	1,771
3 to 6 months	24	4.2%	1	23
6 to 12 months	66	90.9%	60	6
Over 12 months	2,143	82.8%	1,775	368
Total	18,474	10.1%	1,874	16,600
Due in <1 year	15,648	3.1%	487	15,161
Due in >1 year	2,826	49.1%	1,387	1,439
2018				
Current	24,460	0.1%	30	24,430
Up to 3 months	5,841	0.1%	6	5,835
3 to 6 months	70	-	-	70
6 to 12 months	191	50.3%	96	95
Over 12 months	3,115	54.1%	1,684	1,431
Total	33,677	-	1,816	31,861
Due in <1 year	30,852	-	429	30,423
Due in >1 year	2,825	-	1,387	1,438

The trade receivables disclosed above include amounts which are past due at the reporting date, but against which the Company has not recognised an expected credit loss 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.

The expected credit loss (ECL) against the intercompany loans and receivables relates entirely to balances which have been outstanding for more than 12 months and so no ageing is provided.

Notes to the financial statements (continued)

For the year ended 31 December 2019

15. Trade and other payables

	2019 £000	2018 £000 Restated *
Trade payables	23,730	29,042
Amounts owed to group undertakings	11,976	17,915
Other payables including taxation and social security	19,174	19,841
Accruals	17,832	18,479
Deferred income	758	326
Subsidiaries called up share capital not paid	750	750
	74,220	86,353

* The prior year has been restated to correctly reflect £44,235,000 of intercompany loans payable as borrowings and reclassify one intercompany loan receivable of £6,911,000 as trade and other receivables.

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 68 days (2018: 65 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. Borrowings

	2019 £000	2018 £000 Restated *
Current:		
Loans from group undertakings	42,693	44,235
Bank Loans	24,940	24,974
Bank overdrafts	53,078	37,166
	120,711	106,375

Loans outstanding at the end of 2019:

- Revolving credit facility with Standard Chartered Bank which was fully utilised with an amount of £25m at 31 December 2019 (2018: £25m). There are no hedges against the interest rate of 3m LIBOR +2.75%.
- At 31 December 2019 the Company has an overdraft facility with notional pooling agreement through the parent company (DPS S.A) *with HSBC for £45m across the group (2018: £45m) of which a net of £33.8m (2018: £8.3m) was utilised within the group as a* whole and £53.2m by the Company (2018: £37.2m) with an interest rate of Bank of England Base Rate + 2.75%.
- Loans from Doosan Lentjes GmbH for £31.8m (€35.3m) (2018: £29.4m (€34.4m)). This is for a period of 12 month and will be renewed automatically on an annual basis. The interest rate on the loan is 6M EURIBOR rate +3%
- Loan from Doosan Lentjes GmbH for £13.5m (€15.0m) (2018: £12.8m (€15.0m)). This is for a period of 12 month and will be renewed automatically on an annual basis. The interest rate on the loan is 6M EURIBOR rate +0.3%

17. Provisions

	Restructuring Provision £000	Total current £000	Onerous leases £000	Other £000	Total non-current £000
Balance at 1 January 2018	-	-	289	8,814	9,103
Income statement charge	2,171	2,171	-	1,952	1,952
Unwinding of discounting	-	-	-	430	430
Applied in the year	(2,171)	(2,171)	(61)	(916)	(977)
Balance at 1 January 2019	-	-	228	10,280	10,508
Income statement charge	-	-	-	363	363
Unwinding of discounting	-	-	-	240	240
Applied in the year	-	-	(62)	(1,539)	(1,601)
Balance at 31 December 2019	-	-	166	9,344	9,510

17. Provisions (Continued)

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 which expires in 2025.

Other provisions include an amount of £9.3m (2018: £9.4m) relating to potential claims for which the Company may be liable together with related legal costs. These claims relate to employees who were working for Doosan Babcock in a period prior to 1972 who were exposed to asbestos and are now suffering illnesses as a result of this exposure. 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.

18. Deferred tax

	Accelerated tax depreciation £000	Withholding Tax £000	Retirement based obligations £000	Provisions and other payables £000	Losses £000	Other £000	Total £000
At 1 January 2018	4,391	(2,033)	13,920	34	9,979	(430)	25,861
(Charged) / credited to the income statement	(503)	359	992	-	(791)	-	57
(Charged) to other comprehensive income	-	-	(1,482)	-	-	-	(1,482)
Reclassification	-	-	-	-	-	971	971
At 31 December 2018	3,888	(1,674)	13,430	34	9,188	541	25,407
(Charged) / credited to the income statement	(635)	603	(743)	(34)	170	215	(424)
(Charged) to other comprehensive income	-	-	(2,491)	-	-	(157)	(2,648)
Reclassification of R&D future tax benefit	-	-	-	-	-	438	438
At 31 December 2019	3,253	(1,071)	10,196	-	9,358	1,037	22,773
At 31 December 2018							
Deferred tax assets	3,888	-	13,431	34	9,188	692	27,233
Deferred tax liabilities	-	(1,674)	(1)	-	-	(151)	(1,826)
	3,888	(1,674)	13,430	34	9,188	541	25,407
At 31 December 2019							
Deferred tax assets	3,253	-	10,196	-	9,358	1,347	24,154
Deferred tax liabilities	-	(1,071)	-	-	-	(310)	(1,381)
	3,253	(1,071)	10,196	-	9,358	1,037	22,773

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.

19. Share capital

	2019 £000	2018 £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 2019

20. Retained earnings

	£000
Balance at 1 January 2018	140,293
Initial application of IFRS 9	(3,646)
As 1 January 2018	136,647
Profit for the year	312
Actuarial gain on post-employment obligations	8,714
Deferred tax debit thereon	(1,482)
Balance at 1 January 2019	144,191
Profit for the year	1,840
Actuarial gain on post-employment obligations	14,657
Deferred tax debit thereon	(2,491)
Balance at 31 December 2019	158,197

21. Revaluation Reserve

	£000
Balance at 1 January 2018	1,670
Balance at 1 January 2019	1,670
Tax on Revaluation of Land from prior years	(157)
Balance at 31 December 2019	1,513

22. Notes to the cash flow statement

Cash used in operations comprises:	2019 £000	2018 £000
Operating profit	4,340	10,426
Payments made into defined benefit pension scheme	(9,731)	(5,069)
Amortisation of intangible assets	520	553
Depreciation of property, plant and equipment	4,609	1,405
Fair value of forward exchange contracts	(297)	(419)
Operating cash flow before movements in working capital	(559)	6,896
Decrease in inventories	11	232
Decrease in receivables	6,540	15,898
(Decrease) in payables	(9,639)	(22,848)
Cash used in operations	(3,647)	178
Cash and cash equivalents comprise:		
Cash and bank balances	267	2,038

Cash and cash equivalents include 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 2019

23. Capital commitments

The company has no capital commitments.

24. 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. The Company assesses any legal claims on a regular basis. To the extent that a claim is payable and measurable a provision is reflected in the accounts accordingly.

25. Leasing

Company as a lessee

The Company has lease contracts for various office and factory premises and items of plant, machinery, vehicles and other equipment used in its operations. Leases of office and factory premises are for varying periods between 2 and 15 years. Leases of plant, machinery, vehicles and other equipment generally have lease terms between 2 and 5 years. The Company's obligations under its leases are secured by the lessor's title to the leased assets.

There are several lease contracts that include extension and termination options and variable lease payments, which are further discussed below. The Company also has certain leases of machinery with lease terms of 12 months or less and leases of office equipment with low value. The Company applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

25.1. Right of use assets

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

	Buildings £000	Motor Vehicles £000	Total £000
Cost			
Balance at 1 January 2019	-	-	-
Adoption of IFRS 16	23,376	1,185	24,561
Additions	7,600	550	8,150
Disposals	-	(119)	(119)
Balance at 31 December 2019	30,976	1,616	32,592
Depreciation			
Balance at 1 January 2019	-	-	-
Charge for period	3,008	543	3,551
Disposals	-	(119)	(119)
Balance at 31 December 2019	3,008	424	3,432
Net book value at			
31 December 2018	-	-	-
31 December 2019	27,968	1,192	29,160

Notes to the financial statements (continued)

For the year ended 31 December 2019

25. Leasing (continued)

25.2. Lease liabilities

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	2019 £000	2018 £000
Balance at 1 January	-	-
Adoption of IFRS 16	26,413	-
Additions	8,150	-
Accretion of interest	1,182	-
Payments	(5,150)	-
Balance at 31 December	30,595	-
Current	5,108	-
Non-Current	25,487	-

An ageing of the maturity of these liabilities can be found in note 12.3

25.3. Items recognised in Income statement

The following are the amounts recognised in the income statement:

	2019 £000	2018 £000
Depreciation expense of right of use assets	3,551	-
Interest expense on lease liabilities	1,182	-
Expense relating to leases of low-value assets (included in administrative expenses)	211	211
Total amount recognised in income statement	4,944	211

The Company had total cash outflows for leases of £5,361,000 in 2019 (£Nil in 2018). The Company also had non-cash additions to right-of-use assets and lease liabilities of £8,150,000 in 2019 (2018: £Nil).

25.4. Extension and Termination options

The Company has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Company's business needs. Management exercises judgement in determining whether these extension and termination options are reasonably certain to be exercised.

Set out below are the undiscounted potential future rental payments relating to periods following the exercise date of extension and termination options that are not included in the lease term:

	<1 year £000	1-5 years £000	>5 years £000	Total £000
Extension options expected not to be exercised	-	15	2,450	2,465
Termination options expected to be exercised	-	821	1,306	2,127

There are no commitments on leases not started yet.

Notes to the financial statements (continued)

For the year ended 31 December 2019

25. Leasing (continued)

25.5. Company as lessor

The Company also acts as lessor on the building it occupies in Crawley. In this case it is a sublessor and so it acts as both lessee and lessor and must apply IFRS 16 accounting in its capacity as lessor. To achieve this, an asset to the value of the total lease receivable discounted at 4%, £1,873,000 was recognised on 1 January 2019 and the element of the head lease relating to this sublease £1,861,000 was deducted from the right of use asset, resulting in a gain of £12,000 arising from the difference between these two amounts. Rental income received on this lease is deducted against this asset whilst the interest receivable is added to it.

The balance on this is as follows:

	2019 £000	2018 £000
As at 1 January 2019	-	-
Adoption of IFRS 16	1,873	-
Cash received	(970)	-
Interest earned	19	-
As at 31 December 2019	922	-

26. Construction contracts in progress

26.1. Contract Balances

	2019 £000	2018 £000
Amounts due from customers for contract work		
Trade receivables (billed revenue)	18,474	33,678
Expected credit loss for trade receivables	(1,874)	(1,816)
Contract assets (unbilled revenue)	47,140	41,525
Expected credit loss for contract assets	(853)	(759)
Contract liabilities (payments in advance)	(7,757)	(9,015)
	55,130	63,613

Trade receivables are non-interest bearing and are generally on terms of 30 to 90 days.

Contract assets are initially recognised for revenue earned from costs incurred on work performed for the customer. Contract liabilities include amounts received from customers in advance of work to be performed.

In respect of trade receivables, expected credit losses of £188,000 (2018: £11,000) were recognised directly in the income statement. A further expected credit loss of £30,000 (2018: £1,269,000) was recognised against trade receivables.

In respect of contract assets, an expected credit loss of £94,000 (2018: £227,000 profit) was recognised in respect of an increase in the provision against contract assets following an opening balance of £986,000 being recognised on adoption of IFRS 9.

Notes to the financial statements (continued)

For the year ended 31 December 2019

26. Construction contracts in progress (continued)

26.2. Contract and revenue disclosure

	2019 £000	2018 £000
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	638	959
Transaction price allocated to remaining performance obligations (order book)	680,579	421,726
Revenue recognised in the reporting period that was included in the contract liability balance at the start of the period	8,262	6,792

26.3. Contract Asset expected credit loss provision

The movement in the Contract Asset expected credit loss provision is as follows:

Contract Asset expected credit loss provision movement	2019 £000	2018 £000
Balance as at 1 January restated under IFRS 9	(759)	(986)
(Charged) / credited to the income statement:		
Additional expected credit loss	(94)	-
Reversal of expected credit loss	-	227
Initial application of IFRS 9	-	-
Balance at 31 December	(853)	(759)

The ageing of the contract asset expected credit loss provision is as follows:

	2019 £000	2018 £000
Up to 3 months	3	-
3 to 6 months	4	-
6 to 12 months	429	293
Over 12 months	417	466
	853	759

Notes to the financial statements (continued)

For the year ended 31 December 2019

27. Related party transactions

Receivables and payables from subsidiary undertakings

	2019 £000	2018 £000
Receivables		
Amounts owed by Doosan Babcock Energy Germany GmbH	1,450	375
Amounts owed by Doosan Power Systems Europe GmbH	18,248	18,755
Amounts owed by Doosan Power Systems Overseas Investments Limited	64,409	62,675
Amounts owed by Doosan Lentjes GmbH	6,481	-
Amounts owed by Doosan Babcock W.L.L	1,854	1,307
Amounts owed by Doosan Babcock General Maint Services L.L.C.	24,723	22,411
Total receivables	117,165	105,523
Payables		
Amounts owed to Doosan Babcock Energy Services (Overseas) Limited	1,121	871
Amounts owed to Doosan Lentjes GmbH	42,694	37,324
Amounts owed to Doosan Power Systems Europe GmbH	-	760
Amounts owed to Doosan Babcock W.L.L	-	506
Total payables	43,815	39,461

Income and costs from subsidiary undertakings

	2019 £000	2018 £000
Income		
Doosan Power Systems Europe GmbH	437	44
Doosan Babcock General Maint Services L.L.C.	802	369
Doosan Power Systems America LLC	698	684
Total income	1,937	1,097

	2019 £000	2018 £000
Costs		
Doosan Power Systems America LLC	14	549
Doosan Babcock Energy Germany GmbH	614	751
Doosan Babcock Energy Polska Sp. z.o.o.	331	35
Total costs	959	1,335

Finance income and costs from subsidiary undertakings

	2019 £000	2018 £000
Finance income		
Doosan Power Systems Europe GmbH	270	222
Doosan Lentjes GmbH	257	191
Doosan Babcock General Maint Services L.L.C.	887	350
Doosan Power Systems Overseas Investments Limited	1,993	2,408
Total finance income	3,407	3,171
Finance costs		
Doosan Babcock WLL	61	-
Doosan Lentjes GmbH	1,090	734
Total finance costs	1,151	734

Notes to the financial statements (continued)

For the year ended 31 December 2019

27. Related party transactions (continued)

Receivables and payables from other group entities

	2019 £000	2018 £000
Amounts owed by Doosan Power Systems S.A.	458,095	444,112
Amounts owed by Doosan Heavy Industries & Construction Co., Ltd	4,747	9,042
Amounts owed by Doosan Power Systems India	652	608
Total receivables	463,494	453,762
Amounts owed to Doosan Skoda s.r.o.	-	5,002
Amounts owed to Doosan Information and Communications Europe Limited	5,847	5,127
Amounts owed to Doosan Heavy Industries & Construction Co., Ltd	3,948	4,251
Amounts owed to Doosan Power Systems (Scotland) Limited Partnership	1,035	1,892
Total payables	10,830	16,272

Income and costs from other group entities

	2019 £000	2018 £000
Income		
Doosan Heavy Industries & Construction Co., Ltd	6,904	8,036
Doosan Power Systems S.A.	1,704	1,498
Doosan Information and Communications Europe Limited	1,185	1,077
Doosan Enpure Limited	380	39
Total income	10,173	10,650
Costs		
Doosan Heavy Industries & Construction Co., Ltd	441	1,727
Doosan Information and Communications Europe Limited	12,454	10,724
Doosan Power Systems (Scotland) Limited Partnership	2,212	2,937
Total costs	15,107	15,388

Finance income and costs from other group entities

	2019 £000	2018 £000
Finance income		
Doosan Power Systems S.A.	12,582	11,438
Total finance income	12,582	11,438
Finance costs		
Doosan Skoda s.r.o.	302	571
Total finance costs	302	571

Notes to the financial statements (continued)

For the year ended 31 December 2019

28. Subsequent events

28.1. Covid-19

Post the balance sheet date, macro-economic uncertainty has arisen due to the Covid-19 pandemic, which has impacted global capital markets as well as commodity pricing, both of which have some impact on some of our customers and their projects. However, this is expected to be in part mitigated due to the nature of our business and our client's business activities which relate to operating and maintaining critical business infrastructure. Our key customers are primarily in the energy, pharmaceutical, chemical and oil and gas industries. Management are actively monitoring and implementing strategies to further mitigate against the risks posed by the pandemic with social distancing operating models, effective hedging and an overall risk management programme in place.

The key risks to the business from Covid-19 are its ability to continue with projects if workers cannot access sites safely during lockdown and the risk of postponement of projects if customers are unable to fund projects at this time. Management note that the situation, and resultant impacts, of Covid-19 Virus are constantly developing, but expect that these risks will result only in delay rather than cancelling of work. To mitigate an anticipated short-term reduction in turnover the business has implemented the furlough of some staff, pay reductions and the deferral of payments such as UK VAT.

Covid-19 event represents a non- adjusting post balance sheet event. The carrying value of the assets and liabilities and the estimates and judgments made in the preparation of this financial statements did not reflect any potential impact of Covid-19. The estimates and judgements that will be made in preparing future financial statements and the carrying value of the assets and liabilities may be impacted if the current macro-economic uncertainty continues.

In particular, we expect the following would be impacted:

- The estimated recoverable amounts of intangible assets, property, plant and equipment and goodwill would be lower resulting in an impairment or the reduction in the headroom of recoverable amounts over respective carrying values.
- Deferred tax assets recognised on unutilised tax losses in the UK (note 18) could decrease, if our estimates of taxable profits against which the tax losses can be utilised are reduced significantly, but it not possible to estimate how much this effect would be.

28.2. Business Strategy

At the start of 2020 the Company took the decision to move away from the shrinking coal power market to focus on expansion in the Process and Nuclear businesses. The costs associated with this were £260,000 with annual overhead savings of approximately £500,000 and present an opportunity to win lower risk, more profitable work going forward.

29. 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.

Appendix
For the year ended 31 December 2019

The Company references Key Performance Indicators ("KPIs") when evaluating the Company's reported financial performance and cash flows that are not defined or specific under International Financial Reporting Standards ("IFRS"). The Company considers that these KPIs, which are not a substitute for or superior to IFRS measures, provide stakeholders, most notably the parent company Doosan Heavy Industries & Construction Co Limited with additional useful information by defining new measures to aid the understanding of the Company's financial performance, financial position and cash flows.

KPI	Description	Closest IFRS Measure	Adjustments required to reconcile to closest IFRS Measure	Rationale for adjustments
Order Intake	Measures value of new contracts won	No equivalent	Calculated as the sum of contract value of all new contracts won during the year. The revenue for these contracts will then be recognised over subsequent periods as the work relating to them is completed.	This is the key measure for winning new work which ultimately drives the revenue and profitability of the business in future periods.