Harland and Wolff Heavy Industries Limited

Annual report and financial statements

Registered number NI 038867

31 December 2016

Harland and Wolff Heavy Industries Limited

Contents **Page**

Directors and other information

Directors	R J Cooper (Chairman) J H Guest J F Lappin C F O'Neill
Secretary	C D Shaw
Auditor	KPMG Chartered Accountants Stokes House 17/25 College Square East Belfast BT1 6DH
Registered Office	Queen's Island, Belfast BT3 9DU Telephone - 028 9045 8456 Fax - 028 9045 8515
Company Registration Number	NI038867

Strategic Report

Results for the year and key performance indicators
The Company generated an operating loss of (£5.9M) on a turnover of £8.3M compared to an operating profit of £1.0M on a turnover of £66.7M in 2015.

There was a loss on ordinary activities before tax in the year of (£5.8M) compared to a profit of £1.1M in 2015.

The Directors consider the results for the year to be unacceptable but reflective of the very difficult market conditions in 2016.

Principal activities and business review
The principal activities of the Company remain shipbuilding, heavy engineering, renewables, shiprepair and the design and construction/conversion/maintenance of floating production and drilling vessels for the offshore oil and gas industry.

Organisation

The Company, in recognition of the very difficult trading conditions, further reduced its core employment in the second quarter of 2016 leaving 115 people at December 2016 compared to 170 at the previous year end. The Company retains the ability to supplement this core capacity with recruitment on a temporary basis to meet project workload requirements as necessary. Significant focus together with training and investment continued to be made in ensuring that the Company can meet the differing Health, Safety, Quality and Environmental requirements of its clients.

Shipbuilding, Shiprepair, Offshore, Renewables, Heavy Engineering and Design

During 2016, the Yard provided services to some 24 vessels ranging from short duration emergency repairs (both on and off-site) to normal maintenance repair dockings. We continued our strong relationship with Stena, together with other dockings and work at both the quay and offsite for a number of other companies.

The HMS Caroline, a first world war naval vessel owned by the National Museum of the Royal Navy, underwent hull steelwork and protective coatings renewal in the Belfast Dock during November and December.

We continued to provide facilities and support to Scotrenewables for the fabrication of their full scale prototype SRTT 2000 Tidal Device up to its departure in May 2016. It is now under test at the EMEC facility in Orkney.

In the fabrication sector we secured a contract from Lamprell Energy Ltd to assemble 24 jackets for the East Anglia ONE Offshore Wind Farm with the ultimate client being Scottish Power Renewables. Physical work will commence in the third quarter of 2017 through to the end of the second quarter of 2018.

The Engineering group continued to provide ongoing support for the marine, offshore, renewables and heavy engineering projects being undertaken by the Company. External contracts from existing and new customers were secured with work for Lloyds and Yinson Production PTE Ltd on various shipbuilding and other projects. Engineering support was provided to certain related companies, including Fred. Olsen Ocean AS and Fred. Olsen Windcarrier International, in regard to various projects in the renewables sector.

Business risks

The main risks to the Company continue to be its ability to generate sufficient volumes of work and revenue to cover the underlying cost base, manage projects within budget and therefore generate a profit. The very difficult trading conditions during 2016 meant that the Company had a low level of revenue and hence incurred a significant loss during the year despite taking further actions to reduce its cost base.

The Company's strategy has been to target a number of business areas including shiprepair, shipbuilding, offshore, renewables, heavy engineering and design so that we are not overly reliant on any one sector and can manage, spread and minimise this risk. It is evident that current market conditions in the offshore oil and gas sector are extremely difficult and challenging, with the majority of companies either delaying or cancelling most of their projects, and this is likely to continue through 2017 and into 2018 although we continue to seek out suitable opportunities. Within the renewable energy sector the Company continues its efforts to further develop opportunities in relation to offshore wind foundations, substations, platforms, wave and tidal devices; building on the East Anglia ONE contract recently secured. However it should be acknowledged that given the current global economic climate and aggressive competition, it is a challenge to secure larger contracts which also tend to have significant lead-in times.

Strategic Report (continued)

Business risks (continued)

The Company has secured circa 60% of the workload for 2017 required to return to profitability and our focus is therefore on securing additional contracts for the first and second half of the year and beyond.

The Company continues to monitor and adjust where necessary its cost base maintaining core employment at a low level but recruiting on a temporary basis to meet specific project requirements. The Company continues to have adequate financial resources to address the current market challenges.

Credit risks

The Company does not actively use financial instruments as part of its financial risk management. It is exposed to the usual credit risks and cash flow risks associated with selling on credit and manages these risks through contract payment terms and credit control procedures.

Liquidity, cashflow and interest rate risk

The Company ensures that it has sufficient financing facilities available through cash flow generated from operating activities and from its cash reserves. It has no borrowings and therefore has no interest rate risk.

Currency risk

The majority of the Company's activities are conducted in sterling. If significant amounts of foreign currencies are involved the Company will manage risk by entering into foreign exchange contracts with its banks. Therefore the currency risk to the Company is minimised where possible.

Pension schemes

The Company is a participating member of the Group Pension Scheme with 33 of the Company's current employees being members of the Group Pension Scheme.

The Company also continued with certain pension and stakeholder pension schemes including the National Employment Saving Trust ('NEST').

Further details on the pension schemes are detailed in Note 18 to the financial statements.

Future development and performance

For 2017 the continuing focus is to secure sufficient levels of work at the right price level in each of the sectors in which the Company operates, to ensure that we return to a sustainable profitable position. The underlying economic climate remains challenging with the Group having secured marine workload for the first four months together with a significant fabrication contract for the second half of the year.

In the marine sector there are nine vessels booked through to April 2017 for the Belfast Dock and the Borgholm Dolphin, an MODU belonging to our sister company Dolphin Drilling Ltd, remains cold stacked at our Shiprepair Quay but with no activity being carried out. There are a number of opportunities in relation to ferries, bulk carriers and tankers for the second quarter and beyond which are being pursued however the nature of this market is generally short term.

In the fabrication sector we secured a contract from Lamprell Energy Ltd to assemble 24 jackets for the East Anglia ONE Offshore Wind Farm with the ultimate client being Scottish Power Renewables. This is a good opportunity for the Company not only in the work that it generates but also the potential for further opportunities in the renewables market. Physical work will commence in the third quarter of 2017 through to the end of the second quarter of 2018. A number of other smaller value contracts have been secured which will be undertaken in 2017.

The Company remains a small investor in Scotrenewables and we are working in cooperation on the next stage of the prototype development under the Horizon 2020 Flotec programme.

We continue to cooperate with various Fred. Olsen related companies as they continue to develop and target various aspects of the offshore renewables market with the Company being the manufacturer of foundations and ancillary items. The target is to secure foundations for wind turbine generators and a number of possibilities are being pursued. The Company is working in cooperation under the Horizon 2020 Demowind programme.

Strategic Report (continued)

Future development and performance (continued)

On the design side, the existing contracts for Lloyds continue and having developed a relationship with Yinson Production PTE Ltd there are opportunities for further work. We are also working closely with various Fred. Olsen related companies in providing design services.

Shipbuilding activities continue with various design work however the current shipbuilding market remains depressed, overly competitive and challenging. Pursuant to Sir John Parker's report to the MOD and recommendations therein, the Company is participating in the National Shipbuilding Strategy Industrial Engagement programme

Whilst the current secured contracts for 2017 are only at circa 60% of what is required, there are, despite market conditions, still reasonable opportunities primarily in the marine and renewables market which are being vigorously pursued.

It is clear that 2017 will again be a difficult and challenging year to secure activity at the levels required and the Company is continually monitoring the position so that it can react quickly to changing circumstances.

Employees
It is the Company's policy that employees are kept as fully informed as it is practicable about the progress of the Company through a process of regular communications.

The Company gives full consideration to applications for employment by disabled persons, and every effort is made to ensure that the training and career development of disabled persons is identical to that of all other employees.

Health, Safety and Environment
The Company has a strong focus on health, safety and the working environment for its employees, contractors and customers. The Company in 2016 maintained its ISO 14001 and OHSAS 18001 certifications and Waste Management Licence

Quality
The Company has a strong focus on Quality and in 2016 maintained its ISO 9001/2008, ISO 3834 and EN 1090 certifications.

By order of the Board

C D SHAW
Secretary

Queen's Island
BELFAST
BT3 9DU

9 March 2017

Directors' Report

The Directors hereby submit their report to the shareholders together with the audited financial statements for the year ended 31 December 2016.

Dividends
No dividends were paid during the year (2015: £1,831,000).

Directors
The Directors who served during the year were as follows:

- R J Cooper
- J H Guest
- J F Lappin
- C F O'Neill

Under the Articles of Association the Directors are not required to retire by rotation.

Political donations
The Company made no political donations (2015: £Nil) or incurred any political expenditure (2015: £Nil) during the year.

Disclosure of information to 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 he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor
Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG will therefore continue in office.

By order of the Board

C D SHAW
Secretary

Queen's Island
BELFAST
BT3 9DU

9 March 2017

Statement of Directors' Responsibilities in respect of the Strategic Report, the Directors' Report and the financial statements

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

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

By order of the Board

C D SHAW
Secretary

Queen's Island
BELFAST
BT3 9DU

9 March 2017

KPMG
Audit
Stokes House
17-25 College Square East
Belfast BT1 6DH
Northern Ireland

Independent Auditor's Report to the Members of Harland and Wolff Heavy Industries Limited

We have audited the financial statements of Harland and Wolff Heavy Industries Limited ('the Company') for the year ended 31 December 2016 which comprise the accounting policies, the profit and loss account, the balance sheet, the statement of changes in equity, the cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland.* Our audit was conducted in accordance with International Standards on Auditing (ISAs) (UK & Ireland).

Opinions and conclusions arising from our audit

1 Our opinion on the financial statements is unmodified

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

2 Our conclusions on other matters on which we are required to report by the Companies Act 2006 are set out below

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

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic Report and the Directors' Report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

3 We have nothing to report in respect of matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

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

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

We have nothing to report in respect of the above responsibilities.

KPMG

Independent Auditor's Report to the Members of Harland and Wolff Heavy Industries Limited (continued)

Basis of our report, responsibilities and restrictions on use

As explained more fully in the Statement of Directors' Responsibilities set out on page 7, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and otherwise comply with the Companies Act 2006. Our responsibility is to audit and express an opinion on the financial statements in accordance with UK law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's Ethical Standards for Auditors.

An audit undertaken in accordance with ISAs (UK & Ireland) involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Whilst an audit conducted in accordance with ISAs (UK & Ireland) is designed to provide reasonable assurance of identifying material misstatements or omissions it is not guaranteed to do so. Rather the auditor plans the audit to determine the extent of testing needed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements does not exceed materiality for the financial statements as a whole. This testing requires us to conduct significant audit work on a broad range of assets, liabilities, income and expense as well as devoting significant time of the most experienced members of the audit team, in particular the engagement partner responsible for the audit, to subjective areas of accounting and reporting.

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.

John Poole (Senior Statutory Auditor)
for and on behalf of KPMG, Statutory Auditor
Chartered Accountants
Stokes House
17-25 College Square East
Belfast
BT1 6DH

9 March 2017

Accounting Policies

Harland and Wolff Heavy Industries Limited ("the Company") is a private company incorporated and domiciled in the UK.

1 Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* ("FRS 102") as issued in September 2015. These financial statements are presented in UK pounds sterling (GBP), rounded to the nearest thousand.

The smallest group in which the results of the Company are consolidated is that headed by Harland and Wolff Group PLC. The consolidated financial statements of this group are available to the public and may be obtained from Harland and Wolff Group PLC, Queens Island, Belfast. The largest group in which the results of Harland and Wolff Group PLC are consolidated is that headed by Fred. Olsen Energy ASA. The consolidated financial statements of Fred. Olsen Energy ASA are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from the address detailed in note 17.

In these financial statements the Company is considered to be qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Reconciliation of the number of shares outstanding from the beginning to the end of the year; and
- Key Management Personnel compensation.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Judgments made by the Directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in accounting policy 21.

2 Measurement convention

The financial statements are prepared on a historical cost basis.

3 Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. In addition the Strategic Report to the financial statements includes the Company's objectives, policies and processes for managing its capital, its financial risk and management objectives.

The Company has financial resources together with a sound base of ongoing and potential customers across different geographic areas and market segments. As a consequence, the Directors believe that the aforementioned will assist in dealing with the current difficult market conditions, and also allow it to secure sufficient volumes of work and revenue.

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

4 Foreign currency transactions

Transactions denominated in foreign currency are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are re-translated into pounds sterling at the rates of exchange prevailing at the balance sheet date. All gains and losses on exchange are dealt with in full in the Profit and Loss Account and reported on a net basis.

Accounting Policies (continued)

5 Classification of financial instruments issued by the Company

In accordance with FRS 102.22, financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

- they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and
- where the instrument will or may be settled in the entity's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the entity's own equity instruments or is a derivative that will be settled by the entity exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the entity's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

6 Basic financial instruments

Trade and other debtors / creditors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

The Company has no financial instruments which are not considered to be basic financial instruments.

7 Impairment excluding stocks and deferred tax assets

Financial assets (including trade and other debtors)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and the loss event that had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Company would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. Impairment losses are recognised in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Accounting Policies (continued)

8 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and any accumulated impairment losses should they rise. The Company assesses at each reporting date whether tangible fixed assets are impaired.

Depreciation

Depreciation is charged to the Profit and Loss Account on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives are as follows:

Leasehold land and buildings	50 years
Modular buildings	20 years
Plant and machinery	3 - 10 years

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the Company expects to consume an asset's future economic benefits.

9 Investments

Other unlisted investments

Unlisted investments are stated at their purchase cost less provision for diminution in value.

10 Stocks and work in progress

(i) Stocks and work in progress

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost is based on the weighted average principle and includes expenditure incurred in acquiring the stocks, production or conversion costs and other costs in bringing them to their existing location and condition. In the case of manufactured stocks and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

(ii) Long term contract balances

Long term contract balances are stated at total costs incurred, net of amounts transferred to the Profit and Loss Account in respect of work carried out to date, less foreseeable losses and applicable payments on account not matched with turnover.

Where it is considered that the outcome of a long term contract can be assessed with reasonable certainty before its conclusion, the prudently calculated attributable profit is recognised in the Profit and Loss Account by way of inclusion in 'Turnover'.

In calculating the profit or loss on each long term contract, account is taken of appropriate overheads based on an estimated normal level of production, including administrative overheads.

To the extent that the provision for foreseeable losses on particular contracts exceeds the costs incurred, after transfers to the Profit and Loss Account in respect of work carried out to date, the excess is included within provisions.

The amount by which recorded turnover is in excess of payments on account is classified as 'Amounts recoverable on contracts', and is included in debtors.

The balance of payments on account, which are in excess of amounts (a) matched with turnover and (b) offset against long term contract balances, are classified as 'Payments on account in excess of work in progress' and are separately disclosed within creditors.

Accounting Policies (continued)

11 Provision for guarantee repairs

A provision is recognised in the balance sheet when the entity has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

Provision is made for the estimated cost of repairs which may have to be carried out under guarantee. In arriving at the provision the complexity of the work carried out and the terms and conditions of the associated contracts are taken into consideration.

12 Government grants

Capital based grants received or receivable have been credited to a deferred income account which is released to the Profit and Loss Account in line with the expected lives of the assets to which they relate. The balance of unamortised grants is shown within 'Creditors' as deferred income.

Grants relating to revenue expenditure are credited to the Profit and Loss Account in the year that the conditions attached to the grant are met and there is a reasonable assurance that the grant will be received.

13 Employee benefits

Defined benefit pension liability

The Parent company, Harland and Wolff Group PLC, operates a trustee administered Group pension scheme providing defined benefits based on final pensionable salary for certain of its core employees. The assets of this scheme are held separately from those of the Company.

It is not possible to identify the Company's share of the scheme assets and liabilities. As such, contributions made by the Company to the scheme are treated as if it were a defined contribution scheme and charged to the Profit and Loss Account when paid.

Employee pension contribution schemes

A stakeholder pension scheme was introduced for new core employees from the start of 2008 with the Company making contributions of up to 3% of basic salary, dependent upon the employee's contribution. From August 2014 the Company has operated the National Employment Saving Trust ('NEST') to comply with auto enrolment legislation.

14 Contingent liabilities

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably measured. Contingent liabilities are not recognised in the balance sheet but are disclosed unless they are remote.

15 Turnover

Turnover represents the amounts earned under each contract undertaken by the Company in relation to shipbuilding, shiprepair, offshore, renewables, heavy engineering and design.

General contracts

Turnover derived from general contracts is recognised in the period that services are rendered at rates established in the relevant contracts.

Long-term contracts

For those long-term contracts which are in progress at the year-end, turnover represents the pro-portion of the contract earned at the year-end date.

Accounting Policies (continued)

15 Turnover (continued)

Turnover on long-term contracts is recognised using the percentage of completion method throughout the performance period of the contract when the outcome can be measured reliably. The percentage of completion is typically calculated based on the ratio of contract costs incurred to date to total estimated contract costs after providing for all known or anticipated costs. On certain contracts the Company may use the ratio of incurred to total estimated direct labour hours to determine the percentage of completion. Costs include material, direct labour and engineering. Selling, general and administrative expenses are charged to operations as incurred. The effect of changes in estimates of contract costs is recorded currently. An expected loss on a contract is recognised immediately in the profit and loss account.

Costs and estimated earnings in excess of billings on uncompleted contracts represent 'amounts recoverable on contracts' under the percentage of completion method but not yet billable under the terms of the contract. Amounts billed in advance of satisfying revenue recognition criteria on long term contracts are classified as 'payments on account in excess of WIP' on uncompleted contracts. Generally, contract revenues become billable upon the Company attaining certain contract milestones.

16 Expenses

Operating lease expenses

Payments made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease.

Interest receivable and interest payable

Interest income and interest payable are recognised in profit or loss as they accrue. Foreign currency gains and losses are reported on a net basis.

17 Research and development

Expenditure on research and development activities, undertaken with the prospect of gaining technical knowledge and understanding, is recognised in the profit and loss account as incurred.

18 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met; and differences relating to investments in subsidiaries, to the extent that it is not probable that they will reverse in the foreseeable future and the reporting entity is able to control the reversal of the timing difference.

Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that is it probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Accounting Policies (continued)

19 Segmental reporting

A business segment is defined as a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is defined as a group of assets and operations engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

20 Accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

21 Critical accounting estimates and assumptions

For accounting purposes the Company make estimates and assumptions concerning the future. The resulting accounting estimates may differ from the eventual outcome, but are regarded as the best estimate at the balance sheet date. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Turnover and profit recognition

The majority of long-term contracts are accounted for as construction contracts under FRS 102. Turnover on long-term contracts are recognised using the percentage of completion method throughout the performance period of the contract when the outcome can be measured reliably.

The ultimate profitability of long-term contracts is estimated based on estimates of turnover and costs, including allowances for technical and other risks, which are reliant on the knowledge and experience of the Company's managers, engineers and finance and commercial professionals.

Material changes in these estimates could affect the profitability of individual contracts. Turnover and cost estimates are reviewed and updated on an ongoing basis.

Harland and Wolff Heavy Industries Limited

Profit and Loss Account

For the year ended 31 December 2016

	Note	2016 £000	2015 £000
TURNOVER - Continuing operations	1	8,329	66,736
Cost of sales		(11,939)	(63,353)
GROSS (LOSS) / PROFIT		(3,610)	3,383
Administrative expenses		(2,330)	(2,367)
OPERATING (LOSS) / PROFIT – Continuing operations		(5,940)	1,016
Interest receivable and similar income	2	104	113
Interest payable and similar expenses	3	-	-
(LOSS) / PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		(5,836)	1,129
Tax on (loss)/profit	7	-	-
(LOSS) / PROFIT FOR THE FINANCIAL YEAR		(5,836)	1,129

All reported results arise from continuing operations.

The Company had no other comprehensive income in the current or prior year other than that dealt with within the profit and loss account and accordingly a statement of other comprehensive income has not been presented.

The Accounting Policies on pages 10 to 15 and the notes on pages 20 to 26 form part of these financial statements.

Harland and Wolff Heavy Industries Limited

Balance Sheet

As at 31 December 2016

	Note	2016 £000	2016 £000	2015 £000	2015 £000
FIXED ASSETS					
Tangible fixed assets	8		8,998		10,131
CURRENT ASSETS					
Stocks	9	358		407	
Debtors	10	1,042		1,081	
Cash at bank and in hand		11,621		17,784	
		13,021		19,272	
Creditors: amounts falling due within one year	11	(2,439)		(3,825)	
NET CURRENT ASSETS			10,582		15,447
TOTAL ASSETS LESS CURRENT LIABILITIES			19,580		25,578
PROVISIONS	12		(775)		(937)
NET ASSETS			18,805		24,641
CAPITAL AND RESERVES					
Called up share capital	13		14,200		14,200
Profit and loss account			4,605		10,441
SHAREHOLDERS' FUNDS			18,805		24,641

These financial statements were approved by the Board of Directors on 9 March 2017 and signed on its behalf by:

Robert Cooper
Director

Con O'Neill
Director

The Accounting Policies on pages 10 to 15 and the notes on pages 20 to 26 form part of these financial statements.

Company Registration Number NI038867

Harland and Wolff Heavy Industries Limited

Cashflow statement

For the year ended 31 December 2016

	Note	2016 £000	2015 £000
Cash flows from operating activities			
(Loss)/profit for the year		(5,836)	1,129
Adjustments for:			
Depreciation on tangible fixed assets	8	1,520	2,133
Interest receivable and similar income	2	(104)	(113)
		(4,420)	3,149
Decrease in debtors	10	14	2,974
Decrease in stocks	9	49	53
Decrease in creditors	11	(1,386)	(3,443)
Decrease in provisions		(162)	(226)
Net cash (outflow)/inflow from operating activities		(5,905)	2,507
Cash flows from investing activities			
Net interest received		129	101
Acquisition of tangible fixed assets	8	(387)	(1,399)
Cash outflow from investing activities		(258)	(1,298)
Cash flows from financing activities			
Equity dividends paid		-	(1,831)
Cash outflow from financing activities		-	(1,831)
Net decrease in cash and cash equivalents		(6,163)	(622)
Cash and cash equivalents at 1 January		17,784	18,406
Cash and cash equivalents at 31 December		11,621	17,784

The Accounting Policies on pages 10 to 15 and the notes on pages 20 to 26 form part of these financial statements.

Statement of changes in equity

For the year ended 31 December 2016

	Called Up Share Capital £000	Profit And Loss Account £000	Total Equity £000
Balance at 1 January 2015	14,200	11,143	25,343
Total comprehensive income for the year			
Profit for the financial year	-	1,129	1,129
Transactions with owners recorded directly in equity			
Dividends paid	-	(1,831)	(1,831)
Total comprehensive income for the year	-	(702)	(702)
Balance at 31 December 2015	14,200	10,441	24,641
Balance at 1 January 2016	14,200	10,441	24,641
Total comprehensive income for the year			
Loss for the financial year	-	(5,836)	(5,836)
Balance at 31 December 2016	14,200	4,605	18,805

The Accounting Policies on pages 10 to 15 and the notes on pages 20 to 26 form part of these financial statements.

Notes to the Financial Statements

For the year ended 31 December 2016

1 Segmental information

The table below sets out information for each of the geographical areas of operation:

	United Kingdom		Rest of World		Total	
	2016 £000	2015 £000	2016 £000	2015 £000	2016 £000	2015 £000
Turnover by destination	6,556	65,374	1,773	1,362	8,329	66,736
Turnover by origin	8,329	66,736	-	-	8,329	66,736
Loss/(profit) before tax	(5,836)	1,129	-	-	(5,836)	1,129
Net assets	18,805	24,641	-	-	18,805	24,641

The total turnover in the year of £8,329,000 was generated in the areas of shipbuilding, shiprepair and offshore fabrication, heavy engineering and design (2015: £66,736,000).

Further analysis of turnover by activity as required by FRS102 has not been included in these financial statements as the Directors are of the opinion that such disclosure would be seriously prejudicial to the Company's competitive position.

2 Interest receivable and similar income

	2016 £000	2015 £000
Interest received and receivable on bank deposits	104	113

3 Interest payable and similar expenses

	2016 £000	2015 £000
Net exchange losses	-	-

4 Expenses and auditor's remuneration

Included in (loss)/profit are the following:

	2016 £000	2015 £000
Depreciation – owned assets	1,520	2,133
Restructuring costs	728	182

Auditor's remuneration:

	2016 £000	2015 £000
Audit of these financial statements	20	20
Amounts receivable by auditors and their associates in respect of other services relating to taxation	20	20

Notes to the Financial Statements (continued)

5 Staff numbers and costs

The average number of persons employed by the Company, including Directors, during the year was as follows:

	2016 Number	2015 Number
Production	64	96
Technical, management and administration	71	112
Average employment (excluding agency employees)	135	208

The aggregate payroll costs of these persons were as follows:

	2016 £000	2015 £000
Wages and salaries	5,238	8,235
Social security costs	561	965
Expenses related to defined benefit plans	322	411
Contributions to defined contribution plans	90	111
Other compensation (redundancy)	728	182
	6,939	9,904

6 Directors' remuneration

	2016 £000	2015 £000
Directors' remuneration	643	711
Company contributions to money purchase pension plans	34	34

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £240,000 (2015: £272,000).

The number of Directors who had retirement benefits accruing under defined benefit schemes in the year was one (2015: one). Two Directors had retirement benefits accruing under money purchase schemes in the year (2015: two).

There were no share option schemes in operation and no Directors received shares in respect of their services under long term incentive schemes in either year.

Notes to the Financial Statements (continued)

7 Taxation

Total tax expense recognised in the profit and loss account, comprehensive income and equity

	2016 £000	2015 £000
Current tax		
Current tax on income for the year	-	-
Adjustments in respect of prior years	-	-
Total current tax	-	-
Deferred tax		
Origination/reversal of timing differences	-	-
Adjustment in respect of previous years	-	-
Total deferred tax	-	-
Total tax	-	-

	2016 Current Tax £000	2016 Deferred Tax £000	2016 Total Tax £000	2015 Current Tax £000	2015 Deferred Tax £000	2015 Total Tax £000
Recognised in profit and loss account	-	-	-	-	-	-
Recognised in other comprehensive income	-	-	-	-	-	-
Recognised directly in equity	-	-	-	-	-	-
Total tax	-	-	-	-	-	-

Reconciliation of effective tax rate

	2016 £000	2015 £000
(Loss)/profit for the year	(5,836)	1,129
Total tax expense	-	-
(Loss)/profit excluding taxation	(5,836)	1,129
Current tax at 20% (2015: 20.25%)	(1,167)	229
Non-deductible expenses	43	134
Movement in deferred tax not recognised	1,124	(352)
Group relief	-	(11)
Total tax included in profit or loss	-	-

Factors that may affect future tax charges

The main rate of UK corporation tax will reduce to 19% from April 2017 and to 17% from April 2020. This will reduce future tax charges as well as the value of unrecognised deferred tax assets. Details of unrecognised deferred tax assets are included at note 12 (ii).

Notes to the Financial Statements (continued)

8 Tangible fixed assets

	Leasehold land and buildings £000	Plant and machinery £000	Total £000
Cost			
At 1 January 2016	9,578	20,135	29,713
Additions	-	387	387
Disposals	-	(876)	(876)
At 31 December 2016	9,578	19,646	29,224
Depreciation			
At 1 January 2016	5,394	14,188	19,582
Charge for the year	250	1,270	1,520
Disposals	-	(876)	(876)
At 31 December 2016	5,644	14,582	20,226
Net book value			
At 31 December 2015	4,184	5,947	10,131
At 31 December 2016	3,934	5,064	8,998

The net book value of leasehold land and buildings comprises:

	2016 £000	2015 £000
Core leases – over 50 years unexpired	3,934	4,184
Non-core leases – over 50 years unexpired	-	-
Net book value	3,934	4,184

9 Stocks

	2016 £000	2015 £000
Raw materials and consumables	358	407

The Directors consider that the replacement cost of stocks does not differ materially from their carrying amount.

10 Debtors

	2016 £000	2015 £000
Amounts falling due within one year:		
Trade debtors	606	299
Amounts due from Group companies	43	150
Other debtors	76	168
Prepayments and accrued income	286	418
Amounts recoverable on contracts	29	19
Interest receivable	2	27
	1,042	1,081

Included within trade debtors are amounts totalling £Nil (2015: £45,000) due from related parties (see note 16).

Notes to the Financial Statements (continued)

11 Creditors: amounts falling due within one year

	2016 £000	2015 £000
Trade creditors	1,226	2,918
Taxation including social security and income tax	160	233
Other creditors	580	1
Accruals and deferred income	473	673
	2,439	3,825

There are no amounts included within creditors (2015: £Nil) due to related parties (see note 16).

12 Provisions

(i) Provision for liabilities

	2016 £000	2015 £000
Balance at 1 January	937	1,163
Provisions used during the year	-	(12)
Provisions reversed during the year	(162)	(214)
Balance at 31 December	775	937

The provision above relates to the provision for guarantee repairs.

The amount and timing of any future payments is uncertain due to the complexity of the work guaranteed and the terms and conditions of the associated contracts.

(ii) Deferred tax

The elements of unrecognised deferred tax assets at 17% (2015: 18%) are as follows:

	2016 £000	2015 £000
Difference between accumulated depreciation and amortisation and capital allowances	5,062	5,094
Other timing differences	17	36
Tax losses	4,553	4,067
Total unrecognised deferred tax asset at 17% (2015: 18%)	9,632	9,197

Deferred tax has not been provided on the difference between the carrying value and the tax base of revalued fixed assets on the basis that sufficient tax losses are available to shelter any potential tax liability on disposal.

Whilst a significant amount of tax losses (tax value at 17% of approximately £4,553,000 (2015: £4,067,000, calculated at 18%)) are available to the Company and which are expected to continue to reduce due to the taxable profits of future years, a deferred tax asset has not been recognised with regard thereto due to the uncertainties associated with predicting the future profitability of the Company.

The potential unrecognised deferred tax asset has been calculated at 17% as Finance Act 2016 which substantially enacted the 17% tax rate from 1 April 2020 was passed in September 2016, prior to the 31 December 2016 balance sheet date.

Notes to the Financial Statements (continued)

13 Share capital and reserves

	2016 £000	2015 £000
Share capital		
Allotted, issued and fully paid		
14,200,000 ordinary shares at £1 per share	14,200	14,200

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

14 Commitments

Capital commitments

Amounts of capital expenditure contracted for but not provided in the financial statements amounted to £nil (2015: £142,000).

Non-cancellable operating leases:

	2016 £000	2015 £000
Rentals payable as follows:		
Less than one year	418	424
Between one and five years	1,596	1,573
More than five years	27,811	27,850
	29,825	29,847

Non-cancellable operating leases consist of long term leases on land and dry docks together with leases on other ancillary operating assets.

15 Contingencies

The Company has, in the ordinary course of business, given guarantees in respect of various contractual obligations.

The Company is also involved in various other legal actions. In the opinion of the Directors, after taking legal advice, the outcome of such actions is unlikely to give rise to a significant liability.

The Company has obligations in respect of a guaranteed VAT facility. In the opinion of the Directors, the likelihood of any liability crystallising with regard to this guarantee is remote.

At the year-end bank and cash balances totalling £1,762,000 (2015: £1,183,000) were collateralised in respect of ongoing contractual obligations.

16 Related party disclosures

Since 100% of the Company's voting rights are controlled by Harland and Wolff Group PLC, the Company has taken advantage of the exemption not to disclose transactions or balances with other wholly owned subsidiaries.

During the year the Company carried out engineering services, fabrication and other support services for fellow subsidiary undertakings of Fred. Olsen Energy ASA to the value of £1,037,000 (2015: £58,424,000), £43,000 (2015: £150,000) of which remains outstanding at the year end and is included in Debtors.

The Company is deemed to be a related party of Fred. Olsen Marine Services AS, Fred. Olsen Ocean AS and Universal Foundation Norway AS as a result of having a common ultimate shareholding from Bonheur ASA and Ganger Rolf ASA.

Notes to the Financial Statements (continued)

16 Related party disclosures (continued)

During the year the Company carried out engineering services, fabrication and other support services for these related parties to the value of £320,000 (2015: £103,000) of which £Nil (2015: £Nil) remains outstanding at the year end.

During the year Harland and Wolff Heavy Industries Limited made lease rental payments totalling £247,000 (2016: £243,000) to Compact Properties (NI) Limited, a company ultimately owned 100% by Fred. Olsen Energy ASA. This is in respect of the rental of land on the Queen's Island site and represents a pass-through of the head lease rents from the Belfast Harbour Commissioners.

All transactions were carried out on an arms' length basis. Amounts owed from and to related parties at 31 December 2016 are disclosed in notes 10 and 11 respectively.

17 Ultimate parent company and controlling party

At 31 December 2016 the Company's entire issued share capital was owned by Harland and Wolff Group PLC, a company incorporated in Northern Ireland.

The smallest group in which the results of the Company are consolidated is that headed by Harland and Wolff Group PLC. The consolidated financial statements of this group are available to the public and may be obtained from Harland and Wolff Group PLC, Queens Island, Belfast.

The largest group in which the results of Harland and Wolff Group PLC are consolidated is that headed by Fred. Olsen Energy ASA. The consolidated financial statements of this group are available to the public and may be obtained from Fred. Olsen Energy ASA, Fred. Olsensgate 2, N-0152 Oslo, Norway.

The Directors consider Fred. Olsen Energy ASA to be the Company's ultimate controlling party.

18 Pension costs

The Company's pension charge for the year amounted to £690,000 (2015: £2,211,000) of which £600,000 represented the contributions made to the Group Pension scheme (2015: £2,100,000), with the remaining £90,000 (2015: £111,000) related to the Company's contributions to a stakeholder pension scheme and NEST (National Employment Savings Trust) for recently recruited employees together with contributions towards personal pension plans.

Within the aforementioned £600,000 (2015: £2,100,000) paid to the Group Pension Scheme is £278,000 (2015: £1,689,000) paid in additional contributions in excess of the current service cost.

The additional disclosure requirements of FRS 102 are included in the financial statements of Harland and Wolff Group PLC, the immediate group in which the results of the Company are consolidated.