

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, D.C. 20549

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**FORM 8-K**

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**CURRENT REPORT**  
**Pursuant to Section 13 or 15(d)**  
**of the Securities Exchange Act of 1934**

**Date of Report (Date of earliest event reported): November 3, 2014**

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**HC2 HOLDINGS, INC.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction  
of incorporation)

**001-35210**  
(Commission  
File Number)

**54-1708481**  
(IRS. Employer  
Identification No.)

**460 Herndon Parkway, Suite 150**  
**Herndon, VA 20170**  
(Address of principal executive offices) (Zip Code)

**Registrant's telephone number, including area code: (703) 456-4100**

**Not Applicable**  
(Former name or former address, if changed since last report.)

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Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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**Item 2.02 Results of Operations and Financial Condition**

In connection with the Notes Offering described in Item 7.01 below, HC2 Holdings, Inc. (“HC2”) disclosed certain preliminary, unaudited results of operations for the third quarter of 2014. These preliminary, unaudited results of operations are furnished as Exhibit 99.1 below and are incorporated herein by reference.

The information set forth in Exhibit 99.1 is being furnished pursuant to Item 2.02 of this Current Report on Form 8-K and shall not be deemed “filed” for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended (the “Exchange Act”) or otherwise subject to the liabilities of that Section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended (the “Securities Act”), or the Exchange Act except as shall be expressly set forth by specific reference in such filing.

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**Item 7.01 Regulation FD Disclosure.**

On November 3, 2014, HC2 announced that it proposed to offer \$250 million aggregate principal amount of senior secured notes due 2019 (the “Notes Offering”) to qualified institutional buyers pursuant to Rule 144A under the Securities Act, and to certain persons in offshore transactions in accordance with Regulation S under the Securities Act.

A copy of the press release announcing the Notes Offering is furnished with this report as Exhibit 99.2 and is incorporated herein by reference.

In connection with the Notes Offering, HC2 is providing the prospective investors with certain financial and other information of HC2, which HC2 is furnishing with this report as outlined below:

<u>Information</u>	<u>Furnished as Exhibit</u>
Press Release dated November 3, 2014	99.2
Risk Factors	99.3
Unaudited Pro Forma Condensed Combined Financial Statements of HC2 Holdings, Inc.	99.4
Management’s Discussion and Analysis of Financial Condition and Results of Operations of HC2	99.5
Management’s Discussion and Analysis of Financial Condition and Results of Operations of Schuff	99.6
Management’s Discussion and Analysis of Financial Condition and Results of Operations of Global Marine	99.7
Description of HC2 Business	99.8
Schuff International, Inc. Condensed Consolidated Interim Financial Statements for the Six Months Ended June 30, 2013 and June 29, 2014 (unaudited)	99.9
Bridgehouse Marine Limited Audited Combined Financial Statements for the Fiscal Year Ended December 31, 2013	99.10
Bridgehouse Marine Limited Audited Combined Financial Statements for the Fiscal Year Ended December 31, 2012	99.11
Bridgehouse Marine Limited Unaudited Combined Financial Statements for the Six Months Ended June 30, 2013 and 2014	99.12

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This report does not constitute an offer to sell or the solicitation of an offer to buy any security and shall not constitute an offer, solicitation or sale of any security in any jurisdiction in which such offering, solicitation or sale would be unlawful.

This information shall not be deemed to be “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or otherwise subject to the liabilities of that section, and shall not be deemed to be incorporated by reference into any of HC2’s filings under the Act or the Exchange Act, whether made before or after the date hereof and regardless of any general incorporation language in such filings, except to the extent expressly set forth by specific reference in such a filing.

### **Forward Looking Statements**

“Safe Harbor” Statement Under the Private Securities Litigation Reform Act of 1995: This report contains, and certain oral statements made by our representatives from time to time may contain, forward-looking statements, including those statements regarding the commencement or completion of the Notes Offering. These statements are based on the beliefs and assumptions of HC2’s management and the management of HC2’s subsidiaries (including target businesses). Generally, forward-looking statements include information describing the Notes Offering and other actions, events, results, strategies and expectations and are generally identifiable by use of the words “believes,” “expects,” “intends,” “anticipates,” “plans,” “seeks,” “estimates,” “projects,” “may,” “will,” “could,” “might,” or “continues” or similar expressions. Factors that could cause actual results, events and developments to differ include, without limitation, capital market conditions, the ability of HC2’s subsidiaries (including, target businesses following their acquisition) to generate sufficient net income and cash flows to make upstream cash distributions, HC2 and its subsidiaries ability to identify any suitable future acquisition opportunities, efficiencies/cost avoidance, cost savings, income and margins, growth, economies of scale, combined operations, future economic performance, conditions to, and the timetable for, completing the integration of financial reporting of acquired or target businesses with HC2 or HC2 subsidiaries, completing future acquisitions and dispositions, litigation, potential and contingent liabilities, management’s plans, changes in regulations, taxes and the risks that may affect the performance of the operating subsidiaries of HC2 and those factors listed under the caption “Risk Factors” in HC2’s most recent Annual Report on Form 10-K and Quarterly Reports on Form 10-Q, filed with the Securities and Exchange Commission. All forward-looking statements described herein are qualified by these cautionary statements and there can be no assurance that the actual results, events or developments referenced herein will occur or be realized. HC2 does not undertake any obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes to future operation results.

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**Item 9.01 Financial Statements and Exhibits.**  
(d) Exhibits

<u>Exhibit No.</u>	<u>Description</u>
99.1	Preliminary, Unaudited Results of Operations for the Third Quarter of 2014
99.2	Press Release dated November 3, 2014
99.3	Risk Factors
99.4	Unaudited Pro Forma Condensed Combined Financial Statements of HC2 Holdings, Inc.
99.5	Management's Discussion and Analysis of Financial Condition and Results of Operations of HC2
99.6	Management's Discussion and Analysis of Financial Condition and Results of Operations of Schuff
99.7	Management's Discussion and Analysis of Financial Condition and Results of Operations of Global Marine
99.8	Description of HC2 Business
99.9	Schuff International, Inc. Condensed Consolidated Interim Financial Statements for the Six Months Ended June 30, 2013 and June 29, 2014 (unaudited)
99.10	Bridgehouse Marine Limited Audited Combined Financial Statements for the Fiscal Year Ended December 31, 2013
99.11	Bridgehouse Marine Limited Audited Combined Financial Statements for the Fiscal Year Ended December 31, 2012
99.12	Bridgehouse Marine Limited Unaudited Combined Financial Statements for the Six Months Ended June 30, 2013 and 2014

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**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

HC2 Holdings, Inc.  
(Registrant)

Date: November 3, 2014

By: /s/ Mesfin Demise  
Name: Mesfin Demise  
Title: Chief Financial Officer

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## EXHIBIT INDEX

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**PRELIMINARY UNAUDITED RESULTS OF OPERATIONS FOR THE THIRD QUARTER OF 2014****Recent Financial Results**

Set forth in this section are certain preliminary estimates of the results of operations that each of HC2, Schuff and Global Marine expect for the third quarter of 2014.

We have provided ranges and estimates for the preliminary results described in this section "Recent Financial Results" because the financial closing procedures for the third quarter of 2014 are not yet complete. Management of each of HC2, Schuff and Global Marine currently expects that the final results will be near the estimates or within the ranges described below. However, the estimates described above are preliminary and represent the most current information available. Therefore, it is possible that the actual results may differ materially from these estimates due to the completion of financial closing procedures, final adjustments and other developments that may arise between now and the time the financial results for the third quarter of 2014 are finalized. Accordingly, undue reliance should not be placed on these estimates.

The preliminary financial data presented below has been prepared by, and is the responsibility of, management and has not been reviewed or audited or subject to any other procedures by any independent registered public accounting firm. Accordingly, no independent registered public accounting firm expresses an opinion or any other form of assurance with respect to this preliminary financial data.

**HC2**

Based on the analysis of the nine months ended September 30, 2014, HC2 expects the following:

HC2's total revenue is expected to be between \$318 million and \$322 million for the nine months ended September 30, 2014 compared to \$180 million for the nine months ended September 30, 2013. Adjusted EBITDA is expected to be between \$0.9 million and \$3.3 million for the nine months ended September 30, 2014 compared to \$(10.8) million for the nine months ended September 30, 2013. Changes in total revenue and Adjusted EBITDA are primarily the result of the divestiture of our legacy telecommunications business in 2013 and the Schuff Acquisition in 2014.

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The following table presents a reconciliation of preliminary Adjusted EBITDA to income (loss) from continuing operations, the most directly comparable GAAP measure, for the nine months ended September 30, 2014 and September 30, 2013:

	<b>Nine Months Ended September 30,</b>	
	<b>2013</b>	<b>2014</b>
Income (loss) from continuing operations	\$ (3,536)	\$ (18,000 – \$23,000)
Depreciation and amortization	2	\$1,000 – \$2,000
Interest expense, net	8	\$3,000 – \$4,000
Income tax (benefit) expense	(3,090)	\$6,250 – \$6,750
(Gain) loss on sale or disposal of assets	(8)	\$(100) – \$100
Asset impairment expense	146	—
Amortization of debt discount	—	\$500 – \$1,000
Loss on early extinguishment or restructuring of debt	—	\$6,750 – \$7,500
Interest income and other (income) expense, net	184	\$(1,000) – \$1,000
(Gain) loss from contingent value rights valuation	(14,904)	—
Foreign currency transaction (gain) loss	232	\$(750) – \$0
Share-based compensation expense	1,742	\$500 – \$1,000
Severance payment (a)	8,470	\$1,460
Other non-recurring items (b)	—	\$1,511
<b>Adjusted EBITDA</b>	<b>\$ (10,754)</b>	<b>\$871 – \$3,321</b>

(in thousands)

(a) Primarily includes executive severance and severance associated with headcount in the telecommunications business.

(b) Lease buyout expense related to a legacy site location for the telecommunications business.

At September 30, 2014, HC2's consolidated cash and cash equivalents are expected to be approximately \$111 million and long-term debt is expected to be approximately \$298 million.

The preliminary expected operating results of HC2 presented above for the nine months ended September 30, 2014 do not include the results for Global Marine. HC2 will not report results consolidated with Global Marine for the quarter ended September 30, 2014 because the Global Marine Acquisition occurred on September 22, 2014 and management considers the results of operations of Global Marine from the date of acquisition to the end of the quarter to be immaterial. The preliminary operating results above reflect the Schuff Acquisition from May 29, 2014, the date of the first acquisition of Schuff shares by HC2; the results do not give pro forma effect to the Schuff Acquisition for the entire nine-month period ended September 30, 2014.

**Schuff**

Based on the analysis of the nine months ended September 28, 2014, Schuff expects the following:

Schuff's total revenue is expected to be approximately \$369.8 million for the nine months ended September 28, 2014, representing an increase of approximately 25% when compared to \$294.9 million for the nine months ended September 29, 2013. The increase in revenues was primarily a result of the ramp-up of major projects located in the Pacific, Midwest and Gulf Coast regions of the United States. Adjusted EBITDA is expected to be \$33.0 million for the nine months ended September 28, 2014, representing an increase of approximately 84% when compared to \$17.9 million for the nine months ended September 29, 2013. The increase in Adjusted EBITDA was primarily a result of the increase in revenues and the associated increase in gross profit. Several favorable settlements on projects in 2014 also increased gross profit.

The following table presents a reconciliation of preliminary Adjusted EBITDA to net income, the most directly comparable GAAP measure, for the nine months ended September 28, 2014 and September 29, 2013:

	Nine months ended	
	September 29, 2013	September 28, 2014
Net income	\$ 4,440	\$ 15,126
Income tax provision	3,074	10,054
Interest expense, net	3,298	1,441
Other expense (income)	1,180	(1,135)
Non-controlling interest	75	(67)
Discontinued operations	185	1
Depreciation	5,681	5,474
Change of control payments	—	1,200
Severance payment	—	900
Adjusted EBITDA	<u>\$ 17,933</u>	<u>\$ 32,994</u>

(in thousands)

At September 28, 2014, Schuff's cash and cash equivalents are expected to be approximately \$2.0 million and total debt is expected to be approximately \$18.4 million. Availability under the Schuff facility was \$32.5 million as of September 28, 2014.

**Global Marine**

Based on the analysis of the nine months ended September 30, 2014, Bridgehouse Marine (the parent and holding company of Global Marine) expects to report the following:

Bridgehouse Marine's total revenue is expected to be between £77 – £81 million for the nine months ended September 30, 2014 compared to approximately £75 million for the nine months ended September 30, 2013. Adjusted EBITDA is expected to be between £20 – £22 million for the nine months ended September 30, 2014 compared to approximately £23 million for the nine months ended September 30, 2013. The decrease in Adjusted EBITDA for the nine months ended September 30, 2014 reflects the completion of the Prysmian charters during the second quarter of 2014. In 2013, Global Marine had achieved margins of approximately 35% from the two vessels assigned to Prysmian in the offshore power market. The decrease in revenue due to the completion of the Prysmian charters was offset by increased revenue from lower margin work in the nine months ended September 30, 2014.

The following table presents a reconciliation of preliminary Adjusted EBITDA to income (loss) from continuing operations, the most directly comparable GAAP measure, for the nine months ended September 30, 2014 and September 30, 2013:

	<b>Nine Months Ended September 30,</b>	
	<b>2013</b>	<b>2014</b>
Net income (loss) from continuing operations	£ 14,289	£ 13,318
Depreciation and amortization	5,201	6,197
Interest expense, net	3,953	2,201
Income tax (benefit) expense	217	586
(Gain) loss on sale or disposal of assets	(40)	62
Interest income and other income	(624)	(1,894)
Foreign currency (gain) loss, net	228	978
Adjusted EBITDA	<u>£ 23,224</u>	<u>£ 21,448</u>

(in thousands)

At September 30, 2014, Bridgehouse Marine's cash and cash equivalents are expected to be approximately £41 million and long-term debt is expected to be approximately £48 million.

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**FOR IMMEDIATE RELEASE**

**HC2 HOLDINGS, INC.  
ANNOUNCES LAUNCH OF ITS SENIOR SECURED NOTES OFFERING**

NEW YORK – November 3, 2014 — HC2 Holdings, Inc. (“HC2” or the “Company”) (OTCBB: HCHC) announced today an offering of \$250 million aggregate principal amount of senior secured notes. The Company expects to use the net proceeds from the issuance of the notes to repay the outstanding amounts under its credit facility. The offering is subject to market conditions and other factors.

The offering will be made solely by means of a private placement to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended (the “Securities Act”), and to certain persons in offshore transactions pursuant to Regulation S under the Securities Act.

The notes to be issued in the offering have not been and will not be registered under the Securities Act and may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements of the Securities Act.

This press release does not constitute an offer to sell or the solicitation of an offer to buy any security and shall not constitute an offer, solicitation or sale of any security in any jurisdiction in which such offering, solicitation or sale would be unlawful.

**About HC2**

HC2 operates as a holding company of operating subsidiaries primarily in the United States and the United Kingdom. HC2 owns 91% of Schuff International Inc., a leading provider of structural steel fabrication, erection and engineering support services in the United States. HC2 also owns Global Marine Systems Limited, which is a global offshore engineering company and provider of engineering and underwater services, responding to the subsea cable installation, maintenance and burial requirements of its world-wide customer base. HC2’s indirectly wholly owned subsidiary PTGi International Carrier Services, Inc. operates direct routes and provides premium voice communication services for national telecom operators, mobile operators, wholesale carriers, prepaid operators, voice over internet service operators and Internet service providers. HC2 owns a majority interest in ANG Holding, Inc., a natural gas fueling company. HC2 owns 80% of Genovel Orthopedics, Inc. which seeks to develop products to treat early osteoarthritis of the knee. HC2 also has several non-controlling investments, including a 17% equity stake in Novatel Wireless, which designs and develops wireless communications technologies, and a minority interest in NerVve Technologies, Inc., and information technology company. Founded in 1994, HC2 is headquartered in Herndon, Virginia.

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## Forward Looking Statements

“Safe Harbor” Statement Under the Private Securities Litigation Reform Act of 1995: This release contains, and certain oral statements made by our representatives from time to time may contain, forward-looking statements, including statements regarding the commencement or completion of the offering. Generally, forward-looking statements include information describing the offering and other actions, events, results, strategies and expectations and are generally identifiable by use of the words “believes,” “expects,” “intends,” “anticipates,” “plans,” “seeks,” “estimates,” “projects,” “may,” “will,” “could,” “might,” or “continues” or similar expressions. These statements are based on the beliefs and assumptions of HC2’s management and the management of HC2’s subsidiaries (including target businesses). Factors that could cause actual results, events and developments to differ include, without limitation, capital market conditions, the ability of HC2’s subsidiaries (including, target businesses following their acquisition) to generate sufficient net income and cash flows to make upstream cash distributions, HC2 and its subsidiaries ability to identify any suitable future acquisition opportunities, efficiencies/cost avoidance, cost savings, income and margins, growth, economies of scale, combined operations, future economic performance, conditions to, and the timetable for, completing the integration of financial reporting of acquired or target businesses with HC2 or HC2 subsidiaries, completing future acquisitions and dispositions, litigation, potential and contingent liabilities, management’s plans, changes in regulations, taxes and the risks that may affect the performance of the operating subsidiaries of HC2 and those factors listed under the caption “Risk Factors” in HC2’s most recent Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, filed with the Securities and Exchange Commission. All forward-looking statements described herein are qualified by these cautionary statements and there can be no assurance that the actual results, events or developments referenced herein will occur or be realized. HC2 does not undertake any obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes to future operation results.

For information on HC2 Holdings, Inc., please contact:

HC2  
ir@HC2.com

## RISK FACTORS

*Before investing in the notes, you should carefully consider the risk factors discussed below. Any of these risk factors could materially and adversely affect our or our subsidiaries' business, financial condition and results of operations and these risk factors are not the only risks that we or our subsidiaries may face. Additional risks and uncertainties not presently known to us or our subsidiaries or that are not currently believed to be material also may adversely affect us or our subsidiaries.*

### **Risks Related to Our Businesses**

**We have experienced significant historical, and may experience significant future, operating losses and net losses, which may hinder our ability to meet working capital requirements or service our indebtedness, including the notes, and we cannot assure you that we will generate sufficient cash flow from operations to meet such requirements or service our indebtedness, including the notes.**

We cannot assure you that we will recognize net income in future periods. If we cannot generate net income or sufficient operating profitability, we may not be able to meet our working capital requirements or service our indebtedness, including the notes. Our ability to generate sufficient cash for our operations will depend upon, among other things, our future financial and operating performance, which will be affected by prevailing economic conditions and financial, business, regulatory and other factors, many of which are beyond our control. We recognized net income of

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\$111.6 million in 2013 (after taking into account \$148.8 million of gain from the sale of discontinued operations, net of tax), and net income of \$27.9 million in 2012 (after taking into account \$94.3 million of gain from the sale of discontinued operations, net of tax) and have incurred net losses in prior periods.

We cannot assure you that our business will generate cash flow from operations in an amount sufficient to fund our liquidity needs. If our cash flows and capital resources are insufficient, we may be forced to reduce or delay capital expenditures, sell assets and/or seek additional capital or financings. Our ability to obtain financings will depend on the condition of the capital markets and our financial condition at such time. Any financings could be at high interest rates and may require us to comply with covenants, which could further restrict our business operations. In the absence of such operating results and resources, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our obligations. We may not be able to consummate those dispositions for fair market value or at all. Furthermore, any proceeds that we could realize from any such disposition may not be adequate to meet our obligations. We recognized cash flows from operating activities of \$(20.3) million in 2013, \$23.6 million in 2012 and \$42.9 million in 2011.

**We may not be able to fully utilize our net operating loss and other tax carryforwards.**

Our ability to utilize our net operating loss ("NOL") and other tax carryforward amounts to reduce taxable income in future years may be limited for various reasons, including if projected future taxable income is insufficient to recognize the full benefit of such NOL carryforward amounts prior to their expiration. Additionally, our ability to fully utilize these tax assets could also be adversely affected if we were deemed to have an "ownership change" within the meaning of Sections 382 and 383 of the Internal Revenue Code of 1986, as amended (the "Code"). An ownership change is generally defined as a greater than 50% increase in equity ownership by "5% shareholders" (as that term is defined for purposes of Sections 382 and 383 of the Code) in any three year period.

As of September 30, 2014, we had an estimated NOL carryforward in the amount of \$195 million. This amount does not include 2014 activity. In the first quarter of 2014, substantial acquisitions of our common stock were reported by new beneficial owners on Schedule 13D filings made with the SEC. On May 29, 2014, we issued 30,000 shares of Series A Preferred Stock and 1,500,000 shares of common stock in connection with the acquisition of Schuff. During the second quarter of 2014, we completed a Section 382 review. The conclusions of this review indicate that an ownership change had occurred as of May 29, 2014. Our annual Section 382 base limit following the ownership change is estimated to be \$2.16 million per year. We also determined that we had a net unrealized built in gain at the time of the change. Pursuant to Section 382(h) of the Code, we are able to increase our Section 382 annual base limitation by an incremental limitation estimated to be a total of \$7.1million in the first five years following the ownership change. On this basis the annual available NOL for the first five years is estimated to be \$3.58 million, decreasing to \$2.16 million for the subsequent 15 years.

**We are dependent on certain key personnel.**

We are dependent upon the skills, experience and efforts of our senior management and other key personnel. The loss of any members of our senior management or other key personnel, or limitations on their involvement in our business, could have a material adverse effect on our financial condition and results of operations.

**We may not be able to attract and retain skilled people.**

We may not be able to attract new personnel, including management and technical and sales personnel, retain and motivate our existing employees, and continue to compensate personnel competitively. Competition for the best personnel in our business can be intense. Our financial condition and results of operations could be materially adversely affected if we are unable to attract and retain qualified personnel.

**We will increase our size in the future, and may experience difficulties in managing growth.**

We have adopted a business strategy that requires that we expand our operations, including in connection with or in anticipation of any future acquisitions or other business opportunities, and as a result we are required to increase our level of corporate functions, which may include hiring additional personnel to perform such functions and enhancing our

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information technology systems. Any future growth may increase our corporate operating costs and expenses and impose significant added responsibilities on members of our management, including the need to identify, recruit, maintain and integrate additional employees and implement enhanced informational technology systems. Our future financial performance and our ability to compete effectively will depend, in part, on our ability to manage any future growth effectively.

**Our officers, directors, stockholders and their respective affiliates may have a pecuniary interest in certain transactions in which we are involved, and may also compete with us.**

While we have adopted a code of ethics applicable to our officers and directors reasonably designed to promote the ethical handling of actual or apparent conflicts of interest between personal and professional relationships, we have not adopted a policy that expressly prohibits our directors, officers, stockholders or affiliates from having a direct or indirect pecuniary interest in any transaction to which we are a party or have an interest. Nor do we have a policy that expressly prohibits any such persons from engaging for their own account in business activities of the types conducted by us. We have in the past engaged in transactions in which such persons have an interest and, subject to the terms of any applicable covenants in financing arrangements or other agreements we may enter into from time to time, may in the future enter into additional transactions in which such persons have an interest. In addition, such parties may have an interest in certain transactions such as strategic partnerships or joint ventures in which we are involved, and may also compete with us.

**In the course of their other business activities, certain of our current and future directors and officers may become aware of business and acquisition opportunities that may be appropriate for presentation to our company as well as the other entities with which they are affiliated. Such directors and officers may therefore not present otherwise attractive business or acquisition opportunities to us.**

Certain of our current and future directors and officers may become aware of business and acquisition opportunities which may be appropriate for presentation to us as well as the other entities with which they are or may be affiliated. Due to those directors' and officers' affiliations with other entities, they may have obligations to present potential business and acquisition opportunities to those entities, which could cause conflicts of interest. Accordingly, they may not present otherwise attractive business or acquisition opportunities to us.

**We may suffer adverse consequences if we are deemed an investment company and we may incur significant costs to avoid investment company status.**

We have not held, and do not hold, ourselves out as an investment company and do not believe we are an investment company under the Investment Company Act of 1940. If the SEC or a court were to disagree with us, we could be required to register as an investment company. This would subject us to disclosure and accounting rules geared toward investment, rather than operating, companies; limiting our ability to borrow money, issue options, issue multiple classes of stock and debt, and engage in transactions with affiliates; and requiring us to undertake significant costs and expenses to meet the disclosure and regulatory requirements to which we would be subject as a registered investment company.

**From time to time we may be subject to litigation for which we may be unable to accurately assess our level of exposure and which, if adversely determined, may have a material adverse effect on our financial condition and results of operations.**

We are or may become party to legal proceedings that are considered to be either ordinary or routine litigation incidental to our current or prior businesses or not material to our financial position or results of operations. We also are or may become party to legal proceedings with the potential to be material to our financial position or results of operations. There can be no assurance that we will prevail in any litigation in which we may become involved, or that our insurance coverage will be adequate to cover any potential losses. To the extent that we sustain losses from any pending litigation which are not reserved or otherwise provided for or insured against, our business, results of operations, cash flows and/or financial condition could be materially adversely affected.

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**Continuing global economic conditions could adversely affect our business.**

The global economy and capital and credit markets have been experiencing exceptional turmoil and upheaval over the past several years. Many major economies worldwide entered significant economic recessions beginning in 2007 and continue to experience economic weakness, with the potential for another economic downturn to occur. Ongoing concerns about the systemic impact of potential long-term and widespread recession and potentially prolonged economic recovery, volatile energy costs, geopolitical issues, the availability, cost and terms of credit, consumer and business confidence and demand, and substantially increased unemployment rates have all contributed to increased market volatility and diminished expectations for many established and emerging economies, including those in which we operate. These general economic conditions could have a material adverse effect on our cash flow from operations, results of operations and overall financial condition.

The availability, cost and terms of credit also have been and may continue to be adversely affected by illiquid markets and wider credit spreads. Concern about the stability of the markets generally and the strength of counterparties specifically has led many lenders and institutional investors to reduce credit to businesses and consumers. These factors have led to a decrease in spending by businesses and consumers over the past several years, and a corresponding slowdown in global infrastructure spending. Continued uncertainty in the U.S. and international markets and economies and prolonged stagnation in business and consumer spending may adversely affect our liquidity and financial condition, and the liquidity and financial condition of our customers, including our ability to access capital markets and obtain capital lease financing to meet liquidity needs.

**We are subject to risks associated with our international operations.**

We operate in international markets. Our international operations are subject to a number of risks, including:

- political conditions and events, including embargoes;
  - restrictive actions by U.S. and foreign governments;
  - the imposition of withholding or other taxes on foreign income, tariffs or restrictions on foreign trade and investment;
  - adverse tax consequences;
  - limitations on repatriation of earnings;
  - currency exchange controls and import/export quotas;
  - nationalization, expropriation, asset seizure, blockades and blacklisting;
  - limitations in the availability, amount or terms of insurance coverage;
  - loss of contract rights and inability to adequately enforce contracts;
  - political instability, war and civil disturbances or other risks that may limit or disrupt markets, such as terrorist attacks, piracy and kidnapping;
  - outbreaks of pandemic diseases or fear of such outbreaks;
  - fluctuations in currency exchange rates, hard currency shortages and controls on currency exchange that affect demand for our services and our profitability;
  - potential noncompliance with a wide variety of laws and regulations, such as the U.S. Foreign Corrupt Practices Act of 1977 (the "FCPA"), and similar non-U.S. laws and regulations, including the U.K. Bribery Act 2010;
  - labor strikes;
  - changes in general economic and political conditions;
  - adverse changes in foreign laws or regulatory requirements, including those with respect to flight operations and environmental protections; and
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- different liability standards and legal systems that may be less developed and less predictable than those in the United States.

If we are unable to adequately address these risks, we could lose our ability to operate in certain international markets and our business, financial condition or results of operations could be materially adversely affected.

The U.S. Departments of Justice, Commerce, Treasury and other agencies and authorities have a broad range of civil and criminal penalties they may seek to impose against companies for violations of export controls, the FCPA, and other federal statutes, sanctions and regulations, including those established by the Office of Foreign Assets Control (“OFAC”) and, increasingly, similar or more restrictive foreign laws, rules and regulations. By virtue of these laws and regulations, and under laws and regulations in other jurisdictions, we may be obliged to limit our business activities, we may incur costs for compliance programs and we may be subject to enforcement actions or penalties for noncompliance. In recent years, U.S. and foreign governments have increased their oversight and enforcement activities with respect to these laws and we expect the relevant agencies to continue to increase these activities. A violation of these laws, sanctions or regulations could materially adversely affect our business, financial condition or results of operations.

We have compliance policies in place for our employees with respect to FCPA, OFAC and similar laws, but there can be no assurance that our employees, consultants or agents will not engage in conduct for which we may be held responsible. Violations of the FCPA, OFAC and other laws, sanctions or regulations may result in severe criminal or civil penalties, and we may be subject to other liabilities, which could materially adversely affect our business, financial condition or results of operations.

**We may be required to expend substantial sums in order to bring Schuff and Global Marine, or companies we acquire in the future, into compliance with the various reporting requirements applicable to public companies and/or to prepare required financial statements, and such efforts may harm our operating results or be unsuccessful altogether.**

Prior to our acquisition of them, Schuff and Global Marine were not subject to many of the requirements applicable to public companies, including Section 404 of the Sarbanes-Oxley Act of 2002, (the “Sarbanes-Oxley Act”), which requires that Schuff and Global Marine evaluate and report on their system of internal controls. We will need to evaluate and integrate the system of internal controls for Schuff and Global Marine. We did not conduct a formal evaluation of Schuff and Global Marine’s internal controls over financial reporting prior to our acquisition of those companies. If our finance and accounting staff or internal controls over financial reporting are inadequate, or if we discover any material weaknesses in internal control over financial reporting in companies we acquire, including Schuff and Global Marine, we may be required to hire additional staff and incur substantial legal and accounting costs to address such inadequacies. Moreover, we cannot be certain that our remedial measures will be effective. Any failure to implement required or improved controls, or difficulties encountered in their implementation, could harm our operating results or increase its risk of material weaknesses in internal controls.

**We face certain risks associated with the acquisition or disposition of businesses and lack of control over investments in associates.**

In pursuing our corporate strategy, we may acquire or dispose of or exit businesses or reorganize existing investments. The success of this strategy is dependent upon our ability to identify appropriate opportunities, negotiate transactions on favorable terms and ultimately complete such transactions. Once we complete acquisitions or reorganizations there can be no assurance that we will realize the anticipated benefits of any transaction, including revenue growth, operational efficiencies or expected synergies. For example, if we fail to recognize some or all of the strategic benefits and synergies expected from a transaction, goodwill and intangible assets may be impaired in future periods. The negotiations associated with the acquisition and disposition of businesses could also disrupt our ongoing business, distract management and employees or increase our expenses.

In addition, we may not be able to integrate acquisitions successfully, including Schuff and Global Marine, and we could incur or assume unknown or unanticipated liabilities or contingencies, which may impact our results of operations. If we dispose of or otherwise exit certain businesses, there can be no assurance that we will not incur certain disposition related charges, or that we will be able to reduce overheads related to the divested assets.

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In addition to the risks described above acquisitions are accompanied by a number of inherent risks, including, without limitation, the following:

- the difficulty of integrating acquired products, services or operations;
- difficulties in maintaining uniform standards, controls, procedures and policies;
- the potential impairment of relationships with employees and customers as a result of any integration of new management personnel;
- the effect of any government regulations which relate to the business acquired;
- difficulties in disposing of the excess or idle facilities of an acquired company or business and expenses in maintaining such facilities; and
- potential expenses under the labor, environmental and other laws of various jurisdictions.

We also own an interest in a number of entities, such as Novatel, where we do not exercise management control and we are therefore unable to direct or manage the business to realize the anticipated benefits that we can achieve through full integration.

### **Risks Related to Schuff**

**Schuff's business is dependent upon major construction contracts, the unpredictable timing of which may result in significant fluctuations in its cash flow due to the timing of receipt of payment under such contracts.**

Schuff's cash flow is dependent upon obtaining major construction contracts primarily from general contractors and engineering firms responsible for commercial and industrial construction projects, such as high- and low-rise buildings and office complexes, hotels and casinos, convention centers, sports arenas, shopping malls, hospitals, dams, bridges, mines and power plants. The timing of or failure to obtain contracts, delays in awards of contracts, cancellations of contracts, delays in completion of contracts, or failure to obtain timely payment from Schuff's customers, could result in significant periodic fluctuations in cash flows from Schuff's operations. In addition, many of Schuff's contracts require it to satisfy specific progress or performance milestones in order to receive payment from the customer. As a result, Schuff may incur significant costs for engineering, materials, components, equipment, labor or subcontractors prior to receipt of payment from a customer. Such expenditures could have a material adverse effect on Schuff's results of operations, cash flows or financial condition.

**The nature of Schuff's primary contracting terms for its contracts, including fixed-price and cost-plus pricing, could have a material adverse effect on Schuff's results of operations, cash flows or financial condition.**

Schuff's projects are awarded through a competitive bid process or are obtained through negotiation, in either case generally using one of two types of contract pricing approaches: fixed-price or cost-plus pricing. Under fixed-price contracts, Schuff performs its services and executes its projects at an established price, subject to adjustment only for change orders approved by the customer, and, as a result, it may benefit from cost savings but be unable to recover any cost overruns. If Schuff does not execute such a contract within cost estimates, it may incur losses or the project may be less profitable than expected. Historically, the majority of Schuff's contracts have been fixed-price arrangements. The revenue, cost and gross profit realized on such contracts can vary, sometimes substantially, from the original projections due to a variety of factors, including, but not limited to:

- failure to properly estimate costs of materials, including steel and steel components, engineering services, equipment, labor or subcontractors;
  - costs incurred in connection with modifications to a contract that may be unapproved by the customer as to scope, schedule, and/or price;
  - unanticipated technical problems with the structures, equipment or systems we supply;
  - unanticipated costs or claims, including costs for project modifications, customer-caused delays, errors or changes in specifications or designs, or contract termination;
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- changes in the costs of materials, engineering services, equipment, labor or subcontractors;
- changes in labor conditions, including the availability and productivity of labor;
- productivity and other delays caused by weather conditions;
- failure to engage necessary suppliers or subcontractors, or failure of such suppliers or subcontractors to perform;
- difficulties in obtaining required governmental permits or approvals;
- changes in laws and regulations; and
- changes in general economic conditions.

Under cost-plus contracts, Schuff receives reimbursement for its direct labor and material cost, plus a specified fee in excess thereof, which is typically a fixed rate per hour, an overall fixed fee, or a percentage of total reimbursable costs, up to a maximum amount, an arrangement that may protect Schuff against cost overruns. If Schuff is unable to obtain proper reimbursement for all costs incurred due to improper estimates, performance issues, customer disputes, or any of the additional factors noted above for fixed-price contracts, the project may be less profitable than expected.

Generally, Schuff's contracts and projects vary in length from 1 to 12 months, depending on the size and complexity of the project, project owner demands and other factors. The foregoing risks are exacerbated for projects with longer-term durations because there is an increased risk that the circumstances upon which Schuff based its original estimates will change in a manner that increases costs. In addition, Schuff sometimes bears the risk of delays caused by unexpected conditions or events. To the extent there are future cost increases that Schuff cannot recover from its customers, suppliers or subcontractors, the outcome could have a material adverse effect on Schuff's results of operations, cash flows or financial condition.

Furthermore, revenue and gross profit from Schuff's contracts can be affected by contract incentives or penalties that may not be known or finalized until the later stages of the contract term. Some of Schuff's contracts provide for the customer's review of its accounting and cost control systems to verify the completeness and accuracy of the reimbursable costs invoiced. These reviews could result in reductions in reimbursable costs and labor rates previously billed to the customer.

The cumulative impact of revisions in total cost estimates during the progress of work is reflected in the period in which these changes become known, including, to the extent required, the reversal of profit recognized in prior periods and the recognition of losses expected to be incurred on contracts in progress. Due to the various estimates inherent in Schuff's contract accounting, actual results could differ from those estimates.

**Schuff's billed and unbilled revenue may be exposed to potential risk if a project is terminated or canceled or if Schuff's customers encounter financial difficulties.**

Schuff's contracts often require it to satisfy or achieve certain milestones in order to receive payment for the work performed. As a result, under these types of arrangements, Schuff may incur significant costs or perform significant amounts of services prior to receipt of payment. If the ultimate customer does not proceed with the completion of the project or if the customer or contractor under which Schuff is a subcontractor defaults on its payment obligations, Schuff may face difficulties in collecting payment of amounts due to it for the costs previously incurred. If Schuff is unable to collect amounts owed to it, this could have a material adverse effect on Schuff's results of operations, cash flows or financial condition.

**Schuff may be exposed to additional risks as it obtains new significant awards and executes its backlog, including greater backlog concentration in fewer projects, potential cost overruns and increasing requirements for letters of credit, each of which could have a material adverse effect on Schuff's results of operations, cash flows or financial condition.**

As Schuff obtains new significant project awards, these projects may use larger sums of working capital than other projects and Schuff's backlog may become concentrated among a smaller number of customers. Approximately \$208.2 million, representing 53.8% of Schuff's backlog at June 29, 2014, was attributable to five contracts, letters of intent, notices to proceed or purchase orders. If any significant projects such as these currently included in Schuff's



backlog or awarded in the future were to have material cost overruns, or be significantly delayed, modified or canceled, Schuff's results of operations, cash flows or financial position could be adversely impacted.

Additionally, as Schuff converts its significant projects from backlog into active construction, it may face significantly greater requirements for the provision of letters of credit or other forms of credit enhancements. We can provide no assurance that Schuff will be able to access such capital and credit as needed or that it would be able to do so on economically attractive terms. Moreover, Schuff may be unable to replace the projects that it executes in its backlog.

**Schuff may not be able to fully realize the revenue value reported in its backlog, a substantial portion of which is attributable to a relatively small number of large contracts or other commitments.**

As of June 29, 2014, Schuff had a backlog of work to be completed of approximately \$386.9 million (\$366.9 million under contracts or purchase orders and \$20.0 million under letters of intent). Backlog develops as a result of new awards, which represent the revenue value of new project commitments received by Schuff during a given period, including legally binding commitments without a defined scope. Commitments may be in the form of written contracts, letters of intent, notices to proceed and purchase orders. New awards may also include estimated amounts of work to be performed based on customer communication and historic experience and knowledge of our customers' intentions. Backlog consists of projects which have either not yet been started or are in progress but are not yet complete. In the latter case, the revenue value reported in backlog is the remaining value associated with work that has not yet been completed, which increases or decreases to reflect modifications in the work to be performed under a given commitment. The revenue projected in Schuff's backlog may not be realized or, if realized, may not be profitable as a result of poor contract performance.

Due to project terminations, suspensions or changes in project scope and schedule, we cannot predict with certainty when or if Schuff's backlog will be performed. From time to time, projects are canceled that appeared to have a high certainty of going forward at the time they were recorded as new awards. In the event of a project cancellation, Schuff typically has no contractual right to the total revenue reflected in its backlog. Some of the contracts in Schuff's backlog provide for cancellation fees or certain reimbursements in the event customers cancel projects. These cancellation fees usually provide for reimbursement of Schuff's out-of-pocket costs, costs associated with work performed prior to cancellation, and, to varying degrees, a percentage of the profit Schuff would have realized had the contract been completed. Although Schuff may be reimbursed for certain costs, it may be unable to recover all direct costs incurred and may incur additional unrecoverable costs due to the resulting under-utilization of Schuff's assets. Approximately \$208.2 million, representing 53.8% of Schuff's backlog at June 29, 2014, was attributable to five contracts, letters of intent, notices to proceed or purchase orders. If one or more of these large contracts or other commitments are terminated or their scope reduced, Schuff's backlog could decrease substantially.

**Schuff's failure to meet contractual schedule or performance requirements could have a material adverse effect on Schuff's results of operations, cash flows or financial condition.**

In certain circumstances, Schuff guarantees project completion by a scheduled date or certain performance levels. Failure to meet these schedule or performance requirements could result in a reduction of revenue and additional costs, and these adjustments could exceed projected profit. Project revenue or profit could also be reduced by liquidated damages withheld by customers under contractual penalty provisions, which can be substantial and can accrue on a daily basis. Schedule delays can result in costs exceeding our projections for a particular project. Performance problems for existing and future contracts could cause actual results of operations to differ materially from those previously anticipated and could cause us to suffer damage to our reputation within our industry and our customer base.

**Schuff's government contracts may be subject to modification or termination, which could have a material adverse effect on Schuff's results of operations, cash flows or financial condition.**

Schuff is a provider of services to U.S. government agencies and is therefore exposed to risks associated with government contracting. Government agencies typically can terminate or modify contracts to which Schuff is a party at their convenience, due to budget constraints or various other reasons. As a result, Schuff's backlog may be reduced or it may incur a loss if a government agency decides to terminate or modify a contract to which Schuff is a party. Schuff is also subject to audits, including audits of internal control systems, cost reviews and investigations by government contracting

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oversight agencies. As a result of an audit, the oversight agency may disallow certain costs or withhold a percentage of interim payments. Cost disallowances may result in adjustments to previously reported revenue and may require Schuff to refund a portion of previously collected amounts. In addition, failure to comply with the terms of one or more of our government contracts or government regulations and statutes could result in Schuff being suspended or debarred from future government projects for a significant period of time, possible civil or criminal fines and penalties, the risk of public scrutiny of our performance, and potential harm to Schuff's reputation, each of which could have a material adverse effect on Schuff's results of operations, cash flows or financial condition. Other remedies that government agencies may seek for improper activities or performance issues include sanctions such as forfeiture of profit and suspension of payments.

In addition to the risks noted above, legislatures typically appropriate funds on a year-by-year basis, while contract performance may take more than one year. As a result, contracts with government agencies may be only partially funded or may be terminated, and Schuff may not realize all of the potential revenue and profit from those contracts. Appropriations and the timing of payment may be influenced by, among other things, the state of the economy, competing political priorities, curtailments in the use of government contracting firms, budget constraints, the timing and amount of tax receipts and the overall level of government expenditures.

**Schuff is exposed to potential risks and uncertainties associated with its reliance on subcontractors and third party vendors to execute certain projects.**

Schuff relies on third-party suppliers, especially suppliers of steel and steel components, and subcontractors to assist in the completion of projects. To the extent these parties cannot execute their portion of the work and are unable to deliver their services, equipment or materials according to the agreed-upon contractual terms, or Schuff cannot engage subcontractors or acquire equipment or materials, Schuff's ability to complete a project in a timely manner may be impacted. Furthermore, when bidding or negotiating for contracts, Schuff must make estimates of the amounts these third parties will charge for their services, equipment and materials. If the amount Schuff is required to pay for third-party goods and services in an effort to meet its contractual obligations exceeds the amount it has estimated, Schuff could experience project losses or a reduction in estimated profit.

**Any increase in the price of, or change in supply and demand for, the steel and steel components that Schuff utilizes to complete projects could have a material adverse effect on Schuff's results of operations, cash flows or financial condition.**

The prices of the steel and steel components that Schuff utilizes in the course of completing projects are susceptible to price fluctuations due to supply and demand trends, energy costs, transportation costs, government regulations, duties and tariffs, changes in currency exchange rates, price controls, general economic conditions and other unforeseen circumstances. Although Schuff may attempt to pass on certain of these increased costs to its customers, it may not be able to pass all of these cost increases on to its customers. As a result, Schuff's margins may be adversely impacted by such cost increases.

**Schuff's dependence on suppliers of steel and steel components makes it vulnerable to a disruption in the supply of its products.**

Schuff purchases a majority of the steel and steel components utilized in the course of completing projects from several domestic and foreign steel producers and suppliers. Although Schuff has long-standing relationships with many of its suppliers, it generally does not have long-term contracts with them. An adverse change in any of the following could have a material adverse effect on Schuff's results of operations or financial condition:

- its ability to identify and develop relationships with qualified suppliers;
  - the terms and conditions upon which it purchases products from its suppliers, including applicable exchange rates, transport costs and other costs, its suppliers' willingness to extend credit to it to finance its inventory purchases and other factors beyond its control;
  - financial condition of its suppliers;
  - political instability in the countries in which its suppliers are located;
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- its ability to import outsourced products;
- its suppliers' noncompliance with applicable laws, trade restrictions and tariffs;
- its inability to find replacement suppliers in the event of a deterioration of the relationship with current suppliers; or
- its suppliers' ability to manufacture and deliver outsourced products according to its standards of quality on a timely and efficient basis.

**Intense competition in the markets Schuff serves could reduce Schuff's market share and earnings.**

The principal geographic and product markets Schuff serves are highly competitive, and this intense competition is expected to continue. Schuff competes with other contractors for commercial, industrial and specialty projects on a local, regional, or national basis. Continued service within these markets requires substantial resources and capital investment in equipment, technology and skilled personnel, and certain of Schuff's competitors have financial and operating resources greater than Schuff. Competition also places downward pressure on Schuff's contract prices and margins. Among the principal competitive factors within the industry are price, timeliness of completion of projects, quality, reputation, and the desire of customers to utilize specific contractors with whom they have favorable relationships and prior experience. While Schuff believes that it maintains a competitive advantage with respect to these factors, failure to continue to do so or to meet other competitive challenges could have a material adverse effect on Schuff's results of operations, cash flows or financial condition.

**Schuff's participation in its current or any future joint investment could be adversely affected by its lack of sole decision-making authority, its reliance on a partner's financial condition and disputes between Schuff and its partners.**

Schuff has formed the Schuff Hopsa Engineering joint venture located in Panama, and in the future it may engage in similar joint ventures with third parties. In such circumstances, Schuff may not be in a position to exercise significant decision-making authority if it does not own a substantial majority of the equity interests of such joint venture or otherwise have contractual rights entitling it to exercise such authority. These ventures may involve risks not present were a third party not involved, including the possibility that partners might become insolvent or fail to fund their share of required capital contributions. In addition, partners may have economic or other business interests or goals that are inconsistent with Schuff's business interests or goals, and may be in a position to take actions contrary to Schuff's policies or objectives. Disputes between Schuff and partners may result in litigation or arbitration that would increase its costs and expenses and divert a substantial amount of management's time and effort away from Schuff's business. Schuff may also, in certain circumstances, be liable for the actions of its third-party partners.

**Schuff's customers' ability to receive the applicable regulatory and environmental approvals for projects and the timeliness of those approvals could adversely affect Schuff's business.**

The regulatory permitting process for Schuff's projects requires significant investments of time and money by Schuff's customers and sometimes by Schuff. There are no assurances that Schuff's customers or Schuff will obtain the necessary permits for these projects. Applications for permits may be opposed by governmental entities, individuals or special interest groups, resulting in delays and possible non-issuance of the permits.

**Schuff's failure to obtain or maintain required licenses may adversely affect its business.**

Schuff is subject to licensure and hold licenses in each of the states in the United States in which it operates and in certain local jurisdictions within such states. While we believe that Schuff is in material compliance with all contractor licensing requirements in the various jurisdictions in which it operates, the failure to obtain, loss or revocation of any license or the limitation on any of Schuff's primary services thereunder in any jurisdiction in which it conducts substantial operations could prevent Schuff from conducting further operations in such jurisdiction and have a material adverse effect on Schuff's results of operations, cash flows or financial condition.

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**Volatility in the equity and credit markets could adversely impact Schuff due to its impact on the availability of funding for Schuff's customers, suppliers and subcontractors.**

Some of Schuff's ultimate customers, suppliers and subcontractors have traditionally accessed commercial financing and capital markets to fund their operations, and the availability of funding from those sources could be adversely impacted by volatile equity or credit markets. The unavailability of financing could lead to the delay or cancellation of projects or the inability of such parties to pay Schuff or provide needed products or services and thereby have a material adverse effect on Schuff's results of operations, cash flows or financial condition.

**Schuff's business may be adversely affected by bonding and letter of credit capacity.**

Certain of Schuff's projects require the support of bid and performance surety bonds or letters of credit. A restriction, reduction, or termination of Schuff's surety bond agreements or letter of credit facilities could limit its ability to bid on new project opportunities, thereby limiting new awards.

**Schuff is vulnerable to significant fluctuations in its liquidity that may vary substantially over time.**

Schuff's operations could require the utilization of large sums of working capital, sometimes on short notice and sometimes without assurance of recovery of the expenditures. Circumstances or events that could create large cash outflows include losses resulting from fixed-price contracts, environmental liabilities, litigation risks, contract initiation or completion delays, customer payment problems and professional and product liability claims and other unexpected costs. Although the Schuff Facility provides it with a source of liquidity, there is no guarantee that the Schuff Facility will be sufficient to meet Schuff's liquidity needs or that Schuff will be able to maintain the Schuff Facility or obtain any other sources of liquidity on attractive terms, or at all.

**Schuff's projects expose it to potential professional liability, product liability, warranty and other claims.**

Schuff's operations are subject to the usual hazards inherent in providing engineering and construction services for the construction of often large commercial industrial facilities, such as the risk of accidents, fires and explosions. These hazards can cause personal injury and loss of life, business interruptions, property damage and pollution and environmental damage. Schuff may be subject to claims as a result of these hazards. In addition, the failure of any of Schuff's products to conform to customer specifications could result in warranty claims against it for significant replacement or rework costs, which could have a material adverse effect on Schuff's results of operations, cash flows or financial condition.

Although Schuff generally does not accept liability for consequential damages in its contracts, should it be determined liable, it may not be covered by insurance or, if covered, the dollar amount of these liabilities may exceed applicable policy limits. Any catastrophic occurrence in excess of insurance limits at project sites involving Schuff's products and services could result in significant professional liability, product liability, warranty or other claims against Schuff. Any damages not covered by insurance, in excess of insurance limits or, if covered by insurance, subject to a high deductible, could result in a significant loss for Schuff, which may reduce its profits and cash available for operations. These claims could also make it difficult for Schuff to obtain adequate insurance coverage in the future at a reasonable cost.

Additionally, customers or subcontractors that have agreed to indemnify Schuff against such losses may refuse or be unable to pay Schuff.

**Schuff may experience increased costs and decreased cash flow due to compliance with environmental laws and regulations, liability for contamination of the environment or related personal injuries.**

Schuff is subject to environmental laws and regulations, including those concerning emissions into the air, discharge into waterways, generation, storage, handling, treatment and disposal of waste materials and health and safety.

Schuff's fabrication business often involves working around and with volatile, toxic and hazardous substances and other highly regulated pollutants, substances or wastes, for which the improper characterization, handling or disposal could constitute violations of U.S. federal, state or local laws and regulations and laws of other countries, and result in criminal and civil liabilities. Environmental laws and regulations generally impose limitations and standards for certain pollutants

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or waste materials and require Schuff to obtain permits and comply with various other requirements. Governmental authorities may seek to impose fines and penalties on Schuff, or revoke or deny issuance or renewal of operating permits for failure to comply with applicable laws and regulations. Schuff is also exposed to potential liability for personal injury or property damage caused by any release, spill, exposure or other accident involving such pollutants, substances or wastes. In connection with the historical operation of our facilities, substances which currently are or might be considered hazardous may have been used or disposed of at some sites in a manner that may require us to make expenditures for remediation.

The environmental, health and safety laws and regulations to which Schuff is subject are constantly changing, and it is impossible to predict the impact of such laws and regulations on Schuff in the future. We cannot ensure that Schuff's operations will continue to comply with future laws and regulations or that these laws and regulations will not cause Schuff to incur significant costs or adopt more costly methods of operation. Additionally, the adoption and implementation of any new regulations imposing reporting obligations on, or limiting emissions of greenhouse gases from, Schuff's customers' equipment and operations could significantly impact demand for Schuff's services, particularly among its customers for industrial facilities.

Any expenditures in connection with compliance or remediation efforts or significant reductions in demand for Schuff's services as a result of the adoption of environmental proposals could have a material adverse effect on Schuff's results of operations, cash flows or financial condition.

**Schuff is and will likely continue to be involved in litigation that could have a material adverse effect on Schuff's results of operations, cash flows or financial condition.**

Schuff has been and may be, from time to time, named as a defendant in legal actions claiming damages in connection with fabrication and other products and services Schuff provides and other matters. These are typically claims that arise in the normal course of business, including employment-related claims and contractual disputes or claims for personal injury or property damage which occur in connection with services performed relating to project or construction sites. Contractual disputes normally involve claims relating to the timely completion of projects or other issues concerning fabrication and other products and services Schuff provides. While we do not believe that any of Schuff's pending contractual, employment-related personal injury or property damage claims and disputes will have a material effect on Schuff's future results of operations, cash flows or financial condition, there can be no assurance that this will be the case.

**Work stoppages, union negotiations and other labor problems could adversely affect Schuff's business.**

A portion of Schuff's employees are represented by labor unions. A lengthy strike or other work stoppage at any of its facilities could have a material adverse effect on Schuff's business. There is inherent risk that ongoing or future negotiations relating to collective bargaining agreements or union representation may not be favorable to Schuff. From time to time, Schuff also has experienced attempts to unionize its non-union facilities. Such efforts can often disrupt or delay work and present risk of labor unrest.

**Schuff's employees work on projects that are inherently dangerous, and a failure to maintain a safe work site could result in significant losses.**

Safety is a primary focus of Schuff's business and is critical to all of its employees and customers, as well as its reputation. However, Schuff often works on large-scale and complex projects, frequently in geographically remote locations. Such involvement often places Schuff's employees and others near large equipment, dangerous processes or highly regulated materials. If Schuff or other parties fail to implement appropriate safety procedures for which they are responsible or if such procedures fail, Schuff's employees or others may suffer injuries. In addition to being subject to state and federal regulations concerning health and safety, many of Schuff's customers require that it meet certain safety criteria to be eligible to bid on contracts, and some of Schuff's contract fees or profits are subject to satisfying safety criteria. Unsafe work conditions also have the potential of increasing employee turnover, project costs and operating costs. Although Schuff has adopted important safety policies that are administered and enforced by functional groups whose primary purpose is to implement effective health, safety and environmental procedures, the failure to comply with such policies, customer contracts or applicable regulations could subject Schuff to losses and liability.

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**Schuff relies on information systems to conduct its business, and failure to protect these systems against security breaches and otherwise maintain such systems in working order could have a material adverse effect on Schuff's results of operations, cash flows or financial condition.**

The efficient operation of Schuff's business is dependent on computer hardware and software systems. Information systems are vulnerable to security breaches, and Schuff relies on industry-accepted security measures and technology to securely maintain confidential and proprietary information maintained on its information systems. However, these measures and technology may not adequately prevent security breaches. In addition, the unavailability of the information systems or the failure of these systems to perform as anticipated for any other reason could disrupt Schuff's business and result in decreased performance and increased costs, causing Schuff's results of operations, cash flows or financial condition to suffer.

### **Risks Related to Global Marine**

**Global Marine may be unable to maintain or replace its vessels as they age.**

As of June 30, 2014, the average age of the vessels operated by Global Marine was approximately 21 years. The expense of maintaining, repairing and upgrading Global Marine's vessels typically increases with age, and after a period of time the cost necessary to satisfy required marine certification standards may not be economically justifiable. There can be no assurance that Global Marine will be able to maintain its fleet by extending the economic life of its existing vessels, or that its financial resources will be sufficient to enable it to make the expenditures necessary for these purposes. In addition, the supply of second-hand replacement vessels is relatively limited and the costs associated with acquiring a newly constructed vessel are high. In the event that Global Marine was to lose the use of any of its vessels for a sustained period of time, its financial performance would be adversely affected.

**The operation and leasing of seagoing vessels entails the possibility of marine disasters including damage or destruction of the vessel due to accident, the loss of a vessel due to piracy or terrorism, damage or destruction of cargo and similar events that may cause a loss of revenue from affected vessels and damage Global Marine's business reputation, which may in turn, lead to loss of business.**

The operation of seagoing vessels entails certain inherent risks that may adversely affect Global Marine's business and reputation, including:

- damage or destruction of a vessel due to marine disaster such as a collision or grounding;
- the loss of a vessel due to piracy and terrorism;
- cargo and property losses or damage as a result of the foregoing or less drastic causes such as human error, mechanical failure and bad weather;
- environmental accidents as a result of the foregoing; and
- business interruptions and delivery delays caused by mechanical failure, human error, war, terrorism, political action in various countries, labor strikes or adverse weather conditions.

Any of these circumstances or events could substantially increase Global Marine's operating costs, as for example, the cost of substituting or replacing a vessel, or lower its revenues by taking vessels out of operation permanently or for periods of time. The involvement of Global Marine's vessels in a disaster or delays in delivery or damages or loss of cargo may harm its reputation as a safe and reliable vessel operator and cause it to lose business.

**Global Marine's operations are subject to complex laws and regulations, including environmental laws and regulations that result in substantial costs and other risks.**

Global Marine does significant business with clients in the oil and natural gas industry, which is extensively regulated by U.S. federal, state, tribal, and local authorities, and corresponding foreign governmental authorities. Legislation and regulations affecting the oil and natural gas industry are under constant review for amendment or expansion, raising the possibility of changes that may become more stringent and, as a result, may affect, among other things, the pricing or marketing of crude oil and natural gas production. Noncompliance with statutes and regulations and more vigorous

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enforcement of such statutes and regulations by regulatory agencies may lead to substantial administrative, civil, and criminal penalties, including the assessment of natural resource damages, the imposition of significant investigatory and remedial obligations, and may also result in the suspension or termination of our operations.

**Litigation, enforcement actions, fines or penalties could adversely impact Global Marine's financial condition or results of operations and damage our reputation.**

Global Marine's business is subject to various international laws and regulations that could lead to enforcement actions, fines, civil or criminal penalties or the assertion of litigation claims and damages. In addition, improper conduct by Global Marine's employees or agents could damage its reputation and lead to litigation or legal proceedings that could result in significant awards or settlements to plaintiffs and civil or criminal penalties, including substantial monetary fines. Such events could lead to an adverse impact on Global Marine's financial condition or results of operations, if not mitigated by its insurance coverage.

As a result of any ship or other incidents, litigation claims, enforcement actions and regulatory actions and investigations, including, but not limited to, those arising from personal injury, loss of life, loss of or damage to personal property, business interruption losses or environmental damage to any affected coastal waters and the surrounding area, may be asserted or brought against various parties including Global Marine. The time and attention of Global Marine's management may also be diverted in defending such claims, actions and investigations. Global Marine may also incur costs both in defending against any claims, actions and investigations and for any judgments, fines, civil or criminal penalties if such claims, actions or investigations are adversely determined and not covered by its insurance policies.

**Currency exchange rate fluctuations may negatively affect our operating results.**

The exchange rates between the US dollar, the Singapore dollar and the GBP have fluctuated in recent periods and may fluctuate substantially in the future. Accordingly, any material appreciation of the GBP against the US dollar and Singapore dollar could have a negative impact on Global Marine's results of operations and financial condition.

**There are risks inherent in foreign operations and investments, such as adverse changes in currency values and foreign regulations.**

The joint ventures in which Global Marine has operating activities or interests that are located outside the US are subject to certain risks related to the indirect ownership and development of, or investment in, foreign subsidiaries, including government expropriation and nationalization, adverse changes in currency values and foreign exchange controls, foreign taxes, U.S. taxes on the repatriation of funds to the United States, and other laws and regulations, any of which may have a material adverse effect on our investments, financial condition, results of operations, or cash flows.

**Global Marine derives a significant amount of its revenues from sales to customers in non-U.S. or foreign countries, which pose additional risks including economic, political and other uncertainties.**

Our non-US or foreign sales are significant in relation to consolidated sales. Global Marine believes that export sales will remain a significant percentage of its revenue. In addition, sales of its products to customers operating in foreign countries that experience political/economic instability or armed conflict could result in difficulties in delivering and installing complete seismic energy source systems within those geographic areas and receiving payment from these customers. Furthermore, restrictions under the FCPA or similar legislation in other countries, or trade embargoes or similar restrictions imposed by the U.S. or other countries, could limit Global Marine's ability to do business in certain foreign countries. These factors could materially adversely affect Global Marine's results of operations and financial condition.

**The loss of any member of Global Marine's senior management or key personnel may adversely affect its financial condition or results of operations.**

Global Marine depends, and will continue to depend in the foreseeable future, on the services of its executive management team and other key personnel. Global Marine's senior management consists of a relatively small number of individuals. These individuals possess sales, marketing, engineering and financial skills that are critical to the operation

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of Global Marine's business. The ability to retain officers and key senior employees is important to Global Marine's success and future growth. The unexpected loss of the services of one or more of these individuals could have a detrimental effect on its business. Global Marine's success laying, repairing and maintaining subsea cables and the success of other activities integral to its operations depends, in part, on its ability to attract and retain experienced engineers and other technically proficient professionals. Competition for many of these professionals is intense. If Global Marine cannot retain its technical personnel or attract additional experienced technical personnel and professionals, its ability to compete successfully could be harmed.

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**UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF HC2 HOLDINGS, INC.**

The following unaudited pro forma condensed consolidated financial statements have been derived from the historical audited and unaudited data for HC2, Bridgehouse Marine (the parent and holding company of Global Marine) and Schuff for the periods specified, on a combined basis, after giving effect to certain transactions that have occurred since June 30, 2014.

The following unaudited pro forma condensed consolidated financial statements have been prepared to give effect to the Schuff Acquisition, the Global Marine Acquisition, the offering of the notes and the use of proceeds therefrom and the following related transactions: the receipt of cash upon the release of certain escrows, the sale of PTI, the exercise of warrants previously issued by us, the borrowings under certain credit facilities, the purchase of a partial ownership interest in Novatel, the issuance of preferred stock, the repayments of credit facilities, the tender of Schuff common stock and the entry into a credit facility by HC2 to finance the Global Marine Acquisition all as more fully described in the accompanying Notes (the "Related Transactions"). The unaudited pro forma condensed consolidated balance sheet as of June 30, 2014 gives effect to the offering of the notes and the use of proceeds therefrom, the Global Marine Acquisition and Related Transactions as if they had occurred on June 30, 2014. The unaudited pro forma condensed consolidated balance sheet is derived from the unaudited historical financial statements of HC2 and Bridgehouse Marine as of June 30, 2014. The unaudited historical balance sheet of Bridgehouse Marine has been translated from GBP to USD using the June 30, 2014 exchange rate of 1.7105.

The following unaudited pro forma condensed consolidated statement of operations for the year ended December 31, 2013 and the unaudited pro forma condensed consolidated statement of operations for the six months ended June 30, 2014 and 2013 give effect to the Schuff Acquisition, the Global Marine Acquisition, the offering of the notes and the use of proceeds therefrom and Related Transactions as if they had occurred on January 1, 2013. The unaudited pro forma condensed consolidated statement of operations is derived from the audited historical financial statements of HC2 and Bridgehouse Marine as of and for the year ended December 31, 2013 and Schuff as of and for the year ended December 29, 2013 and the unaudited historical financial statements of HC2 and Bridgehouse Marine as of and for the six months ended June 30, 2014 and 2013 and Schuff as of June 29, 2014 and June 30, 2013 and for the six months ended June 29, 2014 and June 30, 2013. The audited historical statement of operations of Bridgehouse Marine has been translated from GBP to USD using the average exchange rate for the twelve month period ended December 31, 2013 of 1.5642, while the unaudited historical statement of operations of Bridgehouse Marine has been translated from GBP to USD using the average exchange rate for the six month period ended June 30, 2014 and 2013 of 1.6694 and 1.5434, respectively.

The following unaudited pro forma condensed consolidated statement of operations for the LTM Period gives effect to the offering of the notes and the use of proceeds therefrom, the Schuff Acquisition, Global Marine Acquisition and Related Transactions as if they had occurred on January 1, 2013.

The Global Marine Acquisition was accounted for under the acquisition method of accounting. Under the acquisition method of accounting, the total estimated purchase price, calculated as described in Note 2 to these unaudited pro forma condensed consolidated financial statements, is allocated to the tangible and intangible assets acquired and liabilities assumed in connection with the Global Marine Acquisition, based on their estimated fair values as of the effective date of the Global Marine Acquisition. The preliminary allocation of the purchase price was based upon management's preliminary valuation of the fair value of tangible assets acquired and liabilities assumed and such estimates and assumptions are subject to change.

The unaudited pro forma condensed consolidated financial statements do not include any adjustments regarding liabilities incurred or cost savings achieved resulting from the integration of the companies, as management is in the process of assessing what, if any, future actions are necessary. The unaudited pro forma condensed consolidated financial statements are not intended to represent or be indicative of the consolidated results of operations or financial condition of HC2 that would have been reported had the acquisition been completed as of the dates presented, and should not be construed as representative of the future consolidated results of operations or financial condition of the combined entity.

The unaudited pro forma condensed consolidated financial statements should be read in conjunction with the historical audited and unaudited consolidated financial statements of Schuff and Bridgehouse Marine and the exhibits entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations of HC2," "Management's Discussion and Analysis of Financial Condition and Results of Operations of Schuff" and "Management's Discussion and Analysis of Financial Condition and Results of Operations of Global Marine".

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**UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET  
AS OF JUNE 30, 2014**

	HC2 Holdings, Inc. June 30, 2014	Bridgehouse Marine Limited June 30, 2014	Pro Forma Adjustments		Other Pro Forma Adjustments	Pro Forma June 30, 2014
			Bridgehouse Marine Purchase Price Accounting Adjustments			
<b>ASSETS</b>						
Current Assets:						
Cash and cash equivalents	\$ 40,831	\$ 33,300	\$ (136,556)	(BM1)	\$ 731	(1) \$ 83,622
			4,097	(BM3)	1,720	(2)
					(607)	(3)
					4,988	(4)
					17,000	(5)
					(14,412)	(6)
					(68,817)	(7)
					11,000	(8)
					201,126	(9)
					36,000	(10)
					(37,529)	(11)
					(250,000)	(12)
					240,750	(13)
Investments - current	757	—				757
Accounts receivable (net of allowance for doubtful accounts receivable)	138,043	38,573	—		—	176,616
Cost and recognized earnings in excess of billings on uncompleted contracts	25,737	—	—		—	25,737
Inventory	16,990	12,550	—		—	29,540
Prepaid expenses and other current assets	37,826	38,873	—		(19,491)	(1) 54,207
					(3,001)	(2)
Assets held for sale	9,251	—	—		(5,656)	(3) 3,595
Total current assets	269,435	123,296	(132,459)		113,802	374,074
Restricted cash	—	2,934	—		—	2,934
Property and equipment – net	83,226	117,800	47,205	(BM7)	—	248,231
Goodwill	27,911	—	136,556	(BM1)	—	36,691
			(114,244)	(BM2)		
			(4,276)	(BM4)		
			(5,816)	(BM5)		
			(2,224)	(BM6)		
			(47,205)	(BM7)		
			(1,382)	(BM8)		
			47,371	(BM9)		
Other intangible assets – net	4,615	—	4,276	(BM4)	—	16,931
			5,816	(BM5)		
			2,224	(BM6)		
Investment - long-term	—	77,005	(47,371)	(BM9)	14,412	(6) 44,046
Other assets	6,568	7,636	—		(394)	(7) 23,060
					5,899	(9)
					(5,899)	(12)
					9,250	(13)
Total assets	\$ 391,755	\$ 328,671	\$ (111,529)		\$ 137,070	\$ 745,967

(in thousands)

	HC2 Holdings, Inc. June 30, 2014	Bridgehouse Marine Limited June 30, 2014	Pro Forma Adjustments			Pro Forma June 30, 2014
			Bridgehouse Marine Limited Purchase Price Accounting Adjustments		Other Pro Forma Adjustments	
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>						
Current liabilities:						
Accounts payable	\$ 51,247	\$ 14,245	\$ —		\$ —	\$ 65,492
Accrued interconnection costs	9,815	—	—		—	9,815
Accrued payroll and employee benefits	13,366	—	—		—	13,366
Accrued expenses and other current liabilities	17,715	15,646	(1,382)	(BM8)	(3,000)	(3) 28,979
Billings in excess of costs and recognized earnings on uncompleted contracts	58,218	29,292	—		—	87,510
Accrued income taxes	—	1,259	—		—	1,259
Accrued interest	712	—	—		(638)	(7) 74
Current portion of long-term obligations	36,781	3,690	—		(18,760)	(1) 15,004
					(1,281)	(2)
					(4,988)	(4)
					17,000	(5)
					(438)	(7)
					(17,000)	(7)
					207,025	(9)
					36,000	(10)
					(243,025)	(12)
Liabilities held for sale	4,259	—	—		(4,259)	(3) —
Total current liabilities	192,113	64,132	(1,382)		(33,364)	221,499
Long-term obligations	49,170	86,546	—		(44,847)	(7) 340,869
					250,000	(13)
Pension liability	—	49,967	—		—	49,967
Deferred tax liability	7,799	1,037	—		—	8,836
Other liabilities	1,028	1,240	—		—	2,268
Total liabilities	250,110	202,922	(1,382)		171,789	623,439
Commitments and contingencies						
Temporary equity						
Preferred stock	29,075	—	—		11,000	(8) 40,075
Stockholders' equity:						
Common stock	21	2,165	(2,165)	(BM2)	—	21
Additional paid-in capital	119,724	—	—		9,976	(4) 133,522
					3,822	(11)
Retained earnings	(38,281)	112,079	(112,079)	(BM2)	996	(3) (56,447)
					(6,288)	(7)
					(12,874)	(12)
Treasury stock, at cost	(378)	—	—		—	(378)
Accumulated other comprehensive loss	(14,188)	—	—		—	(14,188)
Total HC2 Holdings, Inc. stockholders' equity before noncontrolling interest	66,898	114,244	(114,244)		(4,368)	62,530
Noncontrolling interest	45,672	11,505	4,097	(BM3)	(41,351)	(11) 19,923
Total permanent equity	112,570	125,749	(110,147)		(45,719)	82,453
Total liabilities and stockholders' equity	\$ 391,755	\$ 328,671	\$ (111,529)		\$ 137,070	\$ 745,967

(in thousands)

See notes to unaudited pro forma condensed consolidated financial statements

**UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Pro Forma Adjustments							Pro Forma Year Ended December 31, 2013	
	HC2 Holdings, Inc. Year Ended December 31, 2013	Schuff International, Inc. Year Ended December 31, 2013	Bridgehouse Marine Limited Year Ended December 31, 2013	Bridgehouse Marine Limited Purchase Price Accounting Adjustments		Schuff International, Inc.  Purchase Price Accounting Adjustments	Other Pro Forma Adjustments		
Net revenue	\$ 230,686	\$ 416,142	\$ 154,862	\$ (1,264)	(BM11)	\$ —	\$ —	\$ 800,426	
Operating expenses									
Cost of revenue	220,315	355,951	112,486	—		—	—	688,752	
Selling, general and administrative	34,692	32,275	9,825	—		—	—	76,792	
Depreciation and amortization	12,032	8,252	9,671	6,353	(BM10)	1,692	(S1)	38,000	
(Gain) loss on sale or disposal of assets	(8)	28	(63)	—		—	—	(43)	
Asset impairment expense	2,791	—	—	—		—	—	2,791	
<b>Total operating expenses</b>	<b>269,822</b>	<b>396,506</b>	<b>131,919</b>	<b>6,353</b>		<b>1,692</b>	<b>—</b>	<b>806,292</b>	
Income (loss) from operations	(39,136)	19,636	22,943	(7,617)		(1,692)	—	(5,866)	
Interest expense	(8)	(3,669)	(7,463)	—		—	(26,250)	(14)	(37,390)
Amortization of debt discount	—	—	—	—		—	—	—	
Loss on early extinguishment or restructuring of debt	—	(1,426)	—	—		—	—	(1,426)	
Gain from contingent value rights valuation	14,904	—	—	—		—	—	14,904	
Interest income and other income (expense), net	(226)	729	1,866	—		—	—	2,369	
Foreign currency transaction gain (loss)	(588)	—	1,553	—		—	—	965	
Income from continuing operations before income taxes and income (loss) from equity investees	(25,054)	15,270	18,899	(7,617)		(1,692)	(26,250)	(26,444)	
Income (loss) from equity investees	—	—	5,095	—		—	—	5,095	
Income tax benefit (expense)	7,442	(2,650)	(734)	—		—	—	4,058	
Income (loss) from continuing operations	(17,612)	12,620	23,260	(7,617)		(1,692)	(26,250)	(17,291)	
Less: Net (income) loss attributable to the noncontrolling interest	—	88	(2,130)	(405)	(BM12)	—	—	(2,447)	
Income (loss) from continuing operations attributable to HC2 Holdings, Inc.	<u>\$ (17,612)</u>	<u>\$ 12,708</u>	<u>\$ 21,130</u>	<u>\$ (8,022)</u>		<u>\$ (1,692)</u>	<u>\$ (26,250)</u>	<u>\$ (19,738)</u>	

(in thousands)





**UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE SIX MONTHS ENDED JUNE 30, 2014**

	Pro Forma Adjustments							Pro Forma Six Months Ended June 30, 2014	
	HC2 Holdings, Inc. Six Months Ended June 30, 2014	Schuff International, Inc. Five Months Ended May 26, 2014	Bridgehouse Marine Limited Six Months Ended June 30, 2014	Bridgehouse Marine Limited Purchase Price Accounting Adjustments		Schuff International, Inc. Purchase Price Accounting Adjustments	Other Pro Forma Adjustments		
Net revenue	\$ 139,940	\$ 177,823	\$ 88,029	\$ —	(BM11)	\$ —	\$ —	\$ 405,792	
Operating expenses									
Cost of revenue	123,967	149,226	62,718	—		—	—	335,911	
Selling, general and administrative	20,236	14,385	5,684	—		—	—	40,305	
Depreciation and amortization	554	3,086	4,689	3,391	(BM10)	(298)	(S1)	11,422	
(Gain) loss on sale or disposal of assets	367	208	—	—		—	—	575	
Asset impairment expense	—	—	—	—		—	—	—	
Total operating expenses	145,124	166,905	73,091	3,391		(298)	—	388,213	
Income (loss) from operations	(5,184)	10,918	14,938	(3,391)		298	—	17,579	
Interest expense	(1,013)	(1,033)	(2,379)	—		—	(13,125)	(14)	(17,550)
Amortization of debt discount	(576)	—	—	—		—	—	(576)	
Loss on early extinguishment or restructuring of debt	—	—	—	—		—	(6,288)	(7)	(19,162)
							(12,874)	(12)	
Gain from contingent value rights valuation	—	—	—	—		—	—	—	
Interest income and other income (expense), net	1,616	(37)	1,806	—		—	—	3,385	
Foreign currency transaction gain (loss)	403	—	2,102	—		—	—	2,505	
Income from continuing operations before income taxes and income (loss) from equity investees	(4,754)	9,848	16,467	(3,391)		298	(32,287)	(13,819)	
Income (loss) from equity investees	—	—	2,848	—		—	—	2,848	
Income tax benefit (expense)	(1,955)	(3,619)	(740)	—		—	—	(6,314)	
Income (loss) from continuing operations	(6,709)	6,229	18,575	(3,391)		298	(32,287)	(17,285)	
Less: Net (income) loss attributable to the noncontrolling interest	(1,059)	(58)	(1,471)	(411)	(BM12)	—	—	(2,999)	
Income (loss) from continuing operations attributable to HC2 Holdings, Inc.	\$ (7,768)	\$ 6,171	\$ 17,104	\$ (3,802)		\$ 298	\$ (32,287)	\$ (20,284)	

See notes to unaudited pro forma condensed consolidated financial statements

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**UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE SIX MONTHS ENDED JUNE 30, 2013**

	Pro Forma Adjustments							Pro Forma Six Months Ended June 30, 2013	
	HC2 Holdings, Inc. Six Months Ended June 30, 2013	Schuff International, Inc. Six Months Ended June 30, 2013	Bridgehouse Marine Limited Six Months Ended June 30, 2013	Bridgehouse Marine Limited Purchase Price Accounting Adjustments		Schuff International, Inc. Purchase Price Accounting Adjustments	Other Pro Forma Adjustments		
Net revenue	\$ 117,410	\$ 187,590	\$ 72,753	\$ (849)	(BM11)	\$ —	\$ —	\$ 376,904	
Operating expenses									
Cost of revenue	110,952	161,348	43,954	—		—	—	316,254	
Selling, general and administrative	23,456	14,886	4,788	—		—	—	43,130	
Depreciation and amortization	1	4,121	4,454	3,134	(BM10)	530	(S1)	12,240	
(Gain) loss on sale or disposal of assets	(6)	—	(130)	—		—	—	(136)	
Asset impairment expense	—	—	—	—		—	—	—	
Total operating expenses	134,403	180,355	53,066	3,134		530	—	371,488	
Income (loss) from operations	(16,993)	7,235	19,687	(3,983)		(530)	—	5,416	
Interest expense	(5)	(2,093)	(3,798)	—		—	(13,125)	(14)	(19,021)
Amortization of debt discount	—	—	—	—		—	—	—	
Loss on early extinguishment or restructuring of debt	—	(160)	—	—		—	—	(160)	
Gain from contingent value rights valuation	14,904	—	—	—		—	—	14,904	
Interest income and other income (expense), net	(108)	130	57	—		—	—	79	
Foreign currency transaction gain (loss)	(251)	—	(2,394)	—		—	—	(2,645)	
Income from continuing operations before income taxes and income (loss) from equity investees	(2,453)	5,112	13,552	(3,983)		(530)	(13,125)	(1,427)	
Income (loss) from equity investees	—	—	2,465	—		—	—	2,465	
Income tax benefit (expense)	(218)	(1,975)	(327)	—		—	—	(2,520)	
Income (loss) from continuing operations	(2,671)	3,137	15,690	(3,983)		(530)	(13,125)	(1,482)	
Less: Net (income) loss attributable to the noncontrolling interest	—	(58)	(1,165)	(316)	(BM12)	—	—	(1,539)	
Income (loss) from continuing operations attributable to HC2 Holdings, Inc.	\$ (2,671)	\$ 3,079	\$ 14,525	\$ (4,299)		\$ (530)	\$ (13,125)	\$ (3,021)	

(in thousands)



**UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE TWELVE MONTHS ENDED JUNE 30, 2014**

	HC2 Holdings, Inc. Pro Forma Year Ended December 31, 2013	HC2 Holdings, Inc. Pro Forma Six Months Ended June 30, 2013	HC2 Holdings, Inc. Pro Forma Six Months Ended June 30, 2014	HC2 Holdings, Inc. LTM Pro Forma Twelve Months Ended June 30, 2014
Net revenue	\$ 800,426	\$ 376,904	\$ 405,792	\$ 829,314
Operating expenses				
Cost of revenue	688,752	316,254	335,911	708,409
Selling, general and administrative	76,792	43,130	40,305	73,967
Depreciation and amortization	38,000	12,240	11,422	37,182
(Gain) loss on sale or disposal of assets	(43)	(136)	575	668
Asset impairment expense	2,791	—	—	2,791
Total operating expenses	<u>806,292</u>	<u>371,488</u>	<u>388,213</u>	<u>823,017</u>
Income (loss) from operations	(5,866)	5,416	17,579	6,297
Interest expense	(37,390)	(19,021)	(17,550)	(35,919)
Amortization of debt discount	—	—	(576)	(576)
Loss on early extinguishment or restructuring of debt	(1,426)	(160)	(19,162)	(20,428)
Gain from contingent value rights valuation	14,904	14,904	—	—
Interest income and other income (expense), net	2,369	79	3,385	5,675
Foreign currency transaction gain (loss)	965	(2,645)	2,505	6,115
Income from continuing operations before income taxes and income (loss) from equity investees	(26,444)	(1,427)	(13,819)	(38,836)
Income (loss) from equity investees	5,095	2,465	2,848	5,478
Income tax benefit (expense)	4,058	(2,520)	(6,314)	264
Income (loss) from continuing operations	(17,291)	(1,482)	(17,285)	(33,094)
Less: Net (income) loss attributable to the noncontrolling interest	(2,447)	(1,539)	(2,999)	(3,908)
Income (loss) from continuing operations attributable to HC2 Holdings, Inc.	<u>\$ (19,738)</u>	<u>\$ (3,021)</u>	<u>\$ (20,284)</u>	<u>\$ (37,002)</u>

(in thousands)

The pro forma results for the twelve months ended June 30, 2014 were calculated by subtracting the pro forma results for the six months ended June 30, 2013 from the pro forma results for the year ended December 31, 2013, and adding the pro forma results for the six months ended June 30, 2014.

See notes to unaudited pro forma condensed consolidated financial statements

## NOTES TO THE UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### Note 1. Basis of Pro Forma Presentation

The Global Marine Acquisition will be accounted for under the acquisition method of accounting in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") No. 805, Business Combinations ("ASC 805"). Under the acquisition method of accounting, we will allocate the purchase price to the tangible and intangible net assets acquired based on their relative fair values as of the date of acquisition.

The unaudited pro forma condensed consolidated financial statements are provided for informational purposes only and do not purport to be indicative of the Company's consolidated financial position or consolidated results of operations which would actually have been obtained had such transactions been completed as of the date or for the periods presented, or of the consolidated financial position or consolidated results of operations that may be obtained in the future.

### Note 2. Preliminary Purchase Price Allocation

Based on management's preliminary valuation of the fair value of tangible and intangible assets acquired and liabilities assumed, which are based on estimates and assumptions that are subject to change, and other factors as described in the introduction to these unaudited pro forma consolidated financial statements, the preliminary estimated purchase price is allocated as follows:

Cash and cash equivalents	\$	33,300
Accounts receivable		38,573
Prepaid expenses and other current assets		38,873
Inventories		12,550
Restricted cash		2,934
Property and equipment, net		165,005
Goodwill		8,780
Trade names		5,816
Customer contracts		4,276
Developed technology		2,224
Investments		29,634
Other assets		7,636
Total assets acquired		<u>349,601</u>
Accounts payable		14,245
Accrued expenses and other current liabilities		14,264
Billings in excess of costs and recognized earnings on uncompleted contracts		29,292
Accrued income taxes		1,259
Current portion of long-term debt		3,690
Long-term debt		86,546
Pension liability		49,967
Deferred tax liability		1,037
Other liabilities		1,240
Noncontrolling interest		11,505
Total liabilities assumed		<u>213,045</u>
Enterprise value		<u>136,556</u>
Less: fair value of noncontrolling interest		<u>4,097</u>
Purchase price attributable to controlling interest	\$	<u><u>132,459</u></u>

(in thousands)

The fair values used in the allocation of purchase price for the Global Marine Acquisition were estimated with the assistance of a third party valuation firm. The allocation of the estimated purchase price is based on the net assets as of September 22, 2014 and is in a preliminary stage as the Company is currently in the process of finalizing many of the purchase amounts presented herein. Prior to the end of the measurement period for finalizing the purchase price allocation, if information becomes available which would indicate material adjustments are required to the purchase price allocation, such adjustments will be included in the purchase price allocation retrospectively.

Based on the preliminary results of the valuation, we have allocated \$12.3 million of the purchase price to acquired intangible assets. The following table summarizes the major classes of acquired intangible assets, as well as the respective weighted-average amortization periods:

	<u>Amount</u> <i>(in thousands)</i>	<u>Weighted-Average Amortization Period</u> <i>(years)</i>
Trade name	\$ 5,816	15
Customer contracts	4,276	4
Developed technology	2,224	8
Total	<u>\$ 12,316</u>	

The amortization expense associated with the definite-lived intangible assets is not deductible for tax purposes.

The definite-lived intangible assets acquired will result in approximately the following annual amortization expense:

2014	\$ 1,113
2015	2,227
2016	1,542
2017	858
2018	858
Thereafter	5,718
	<u>\$ 12,316</u>

(In thousands)

Of the total estimated purchase price, approximately \$8.8 million has been allocated to goodwill and is not deductible for tax purposes. Goodwill represents the excess of the purchase price of an acquired business over the fair value of the net tangible liabilities assumed and intangible assets acquired. Goodwill will not be amortized but instead will be tested for impairment at least annually (more frequently if indicators of impairment arise). In the event that management determines that the goodwill has become impaired, the Company will incur an accounting charge for the amount of the impairment during the fiscal quarter in which the determination is made.

### Note 3. Pro Forma Adjustments

#### Bridgehouse Marine ("BM") Purchase Price Accounting Adjustments

Pro forma adjustments are made to reflect the purchase price of Bridgehouse Marine, adjustments of Bridgehouse Marine's net assets and liabilities to estimates of the fair values of those assets and liabilities, the recording of intangible assets, the noncontrolling interest, the adjustment to depreciation expense resulting from the increase in net book value of property and equipment, the amortization expense related to the intangible assets and the adjustment to net income (loss) for the noncontrolling interest.



The specific purchase price accounting adjustments included in the unaudited pro forma condensed consolidated financial statements are as follows:

- (BM1) To reflect the acquisition of approximately 100% of the outstanding common stock of Bridgehouse Marine.
- (BM2) To eliminate Bridgehouse Marine's common stock and retained earnings, in connection with the Global Marine Acquisition.
- (BM3) To record the noncontrolling interest portion of approximately 3% of Bridgehouse Marine's net assets.
- (BM4) To reflect the estimated fair value of customer contracts of \$4.3 million acquired with the purchase of Bridgehouse Marine.
- (BM5) To reflect the estimated fair value of the trade name of \$5.8 million acquired with the purchase of Bridgehouse Marine.
- (BM6) To reflect the estimated fair value of developed technology of \$2.2 million acquired with the purchase of Bridgehouse Marine.
- (BM7) To record the estimated adjustment of Bridgehouse Marine's property and equipment's net book value to fair value of \$47.2 million in connection with the purchase of Bridgehouse Marine.
- (BM8) To record the adjustment to Bridgehouse Marine's deferred revenue on installation and maintenance agreements.
- (BM9) To record the estimated adjustment to Bridgehouse Marine's investments.
- (BM10) To reflect the adjustment to depreciation expense resulting from adjustment of net book value to fair value of Bridgehouse Marine's property and equipment and the amortization of intangible assets arising from the acquisition of Bridgehouse Marine.
- (BM11) To reflect the adjustment to installation and maintenance revenue.
- (BM12) To reflect the noncontrolling interest income adjustment for the approximate 3% of net income (loss) not attributable to HC2's ownership of Bridgehouse Marine.

#### **Schuff ("S") Purchase Price Accounting Adjustments**

Purchase price accounting adjustments are made to reflect the adjustment to depreciation expense resulting from the increase in net book value of property and equipment, the amortization expense related to the intangible assets, the adjustment to net income (loss) for the noncontrolling interest and the issuance of common stock.

The specific purchase price accounting adjustments included in the unaudited pro forma condensed consolidated financial statements are as follows:

- (S1) To reflect the adjustment to depreciation expense resulting from adjustment of net book value to fair value of Schuff's property and equipment and the amortization of intangible assets arising from the acquisition of Schuff.

#### **Other Pro Forma Adjustments**

Pro forma adjustments are made to reflect the release of certain escrows, the sale of Primus Telecommunications, Inc., the exercise of warrants, the borrowings under a \$17 million credit facility entered into in September 2014 (the "September Credit Facility"), the purchase of a partial ownership interest in Novatel, the issuance of \$11 million of preferred stock, repayments of the balance of an \$80 million credit facility entered into in May 2014 (the "May Credit Facility"), repayment of the September Credit Facility and the tender for Schuff common stock.

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The specific pro forma adjustments included in the unaudited pro forma consolidated financial statements are as follows:

- (1) To reflect the release of the BlackIron Data Indemnification escrow and paydown of the May Credit Facility, with the net to cash.
- (2) To reflect the release of the PTI closing escrow and paydown of the May Credit Facility, with the net to cash.
- (3) To reflect the sale of PTI by removing the held for sale assets and liabilities, reversing the deferred gain recognized initially in conjunction with the Closing escrow and recording gain on sale.
- (4) To reflect the collection of proceeds associated with the exercise of HC2 warrants and paydown of May Credit Facility.
- (5) To reflect the borrowings received from the September Credit Facility.
- (6) To reflect the purchase of an approximate 20% ownership interest in Novatel.
- (7) To reflect the payoff of the remaining balances on the May Credit Facility (\$50.6 million) and September Credit Facility (\$17 million). Also included is the write off of deferred financing costs and original issue discount to net income (loss); and accrued interest.
- (8) To reflect the proceeds received from the issuance of 10,000 shares of HC2's Series A-1 Preferred Stock at \$1,000 per share.
- (9) To reflect the net borrowings received from the Bridge Loan. The amount of the credit facility was \$250.0 million, with an initial draw of \$214.0 million, which includes a discount of \$7.0 million and deferred financing costs of \$5.9 million.
- (10) To reflect the additional draw on the Bridge Loan of \$36.0 million.
- (11) To reflect the tender offer for Schuff common stock and open-market purchases of Schuff common stock which increased HC2's ownership from 70% to approximately 90.6% and the anticipated short form merger that will increase HC2's ownership of Schuff to 100%.
- (12) To reflect the repayment of the Bridge Loan. Also included is the write off of deferred financing costs and original issue discount to net income (loss).
- (13) To reflect the net proceeds received under this offering of \$240.8 million, including deferred financing costs of \$9.2 million.
- (14) To reflect the interest expense on the debt associated with this offering at an assumed interest rate. A 0.125% change in this assumed interest rate would increase our interest expense by \$3.125 million.

The unaudited pro forma condensed consolidated financial statements do not include adjustments for liabilities related to business integration activities for the Global Marine Acquisition as management is in the process of assessing what, if any, future actions are necessary. However, liabilities ultimately may be recorded for costs associated with business integration activities for the Global Marine Acquisition and such liabilities will be expensed as incurred in the HC2's consolidated financial statements.

The Company has not identified any material pre-Global Marine Acquisition contingencies where the related asset, liability or impairment is probable and the amount of the asset, liability or impairment can be reasonably estimated.

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Note 4. Unaudited Condensed Consolidated Financial Statements of Bridgehouse Marine Limited

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET ADJUSTED FOR US GAAP,  
RECLASSIFICATIONS AND CURRENCY TRANSLATION  
AS OF JUNE 30, 2014

	UK GAAP GBP £ Bridgehouse Marine Limited June 30, 2014		US GAAP GBP £ Bridgehouse Marine Limited June 30, 2014		Reclassified US GAAP GBP £ Bridgehouse Marine Limited June 30, 2014		Exchange Rate		US GAAP USD \$ Bridgehouse Marine Limited June 30, 2014				
		US GAAP Adjustments GBP £		Reclassifications GBP £									
<b>ASSETS</b>													
Current Assets:													
Cash and cash equivalents	£	19,468	£	0	£	19,468	£	0	£	19,468	1.7105	\$	33,300
Investments - current		—		—		—		—		—	1.7105		—
Accounts receivable (net of allowance for doubtful accounts receivable)		22,551		—		22,551		—		22,551	1.7105		38,573
Cost and recognized earnings in excess of billings on uncompleted contracts		—		—		—		—		—	1.7105		—
Inventory		7,337		—		7,337		—		7,337	1.7105		12,550
Prepaid expenses and other current assets		22,726		—		22,726		—		22,726	1.7105		38,873
Assets held for sale		—		—		—		—		—	1.7105		—
Total current assets		72,082		—		72,082		—		72,082			123,296
Restricted cash		1,715		—		1,715		—		1,715	1.7105		2,934
Property and equipment—net		96,466		(27,597)		68,869		—		68,869	1.7105		117,800
Goodwill		(10,755)		10,755		—		—		—	1.7105		—
Other intangible assets – net		—		—		—		—		—	1.7105		—
Investment – long-term		45,019		—		45,019		—		45,019	1.7105		77,005
Other assets		4,464		—		4,464		—		4,464	1.7105		7,636
Total assets	£	208,991	£	(16,842)	£	192,149	£	0	£	192,149	1.7105	\$	328,671
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>													
Current liabilities:													
Accounts payable	£	8,328	£	0	£	8,328	£	0	£	8,328	1.7105	\$	14,245
Accrued interconnection costs		—		—		—		—		—	1.7105		—
Accrued payroll and employee benefits		—		—		—		—		—	1.7105		—
Accrued expenses and other current liabilities		9,147		—		9,147		—		9,147	1.7105		15,646
Billings in excess of costs and recognized earnings on uncompleted contracts		17,125		—		17,125		—		17,125	1.7105		29,292
Accrued income taxes		736		—		736		—		736	1.7105		1,259
Accrued interest		—		—		—		—		—	1.7105		—
Current portion of long-term obligations		—		—		—		2,157		2,157	1.7105		3,690
Liabilities held for sale		—		—		—		—		—	1.7105		—
Total current liabilities		35,336		—		35,336		2,157		37,493	1.7105		64,132
Long-term obligations		52,754		—		52,754		(2,157)		50,597	1.7105		86,546
Pension liability		29,212		—		29,212		—		29,212	1.7105		49,967
Deferred tax liability		606		—		606		—		606	1.7105		1,037
Other liabilities		725		—		725		—		725	1.7105		1,240
Total liabilities		118,633		—		118,633		—		118,633	1.7105		202,922

(in thousands, except exchange rate)

**UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET ADJUSTED FOR US GAAP,  
RECLASSIFICATIONS AND CURRENCY TRANSLATION  
AS OF JUNE 30, 2014**

	UK GAAP GBP £ Bridgehouse Marine Limited June 30, 2014	US GAAP Adjustments GBP £	US GAAP GBP £ Bridgehouse Marine Limited June 30, 2014	Reclassifications GBP £	Reclassified US GAAP GBP £ Bridgehouse Marine Limited June 30, 2014	Exchange Rate	US GAAP USD \$ Bridgehouse Marine Limited June 30, 2014
Commitments and contingencies							
Temporary equity							
Preferred stock	—	—	—	—	—	1.7105	—
Stockholders' equity:							
Common stock	1,266	—	1,266	—	1,266	1.7105	2,165
Additional paid-in capital	—	—	—	—	—	1.7105	—
Retained earnings	48,373	17,151	65,524	—	65,524	1.7105	112,079
Revaluation reserve	30,594	(30,594)	—	—	—	1.7105	—
Treasury stock, at cost	—	—	—	—	—	1.7105	—
Accumulated other comprehensive loss	—	—	—	—	—	1.7105	—
Total HC2 Holdings, Inc. stockholders' equity before noncontrolling interest	80,233	(13,443)	66,790	—	66,790	1.7105	114,244
Noncontrolling interest	10,125	(3,399)	6,726	—	6,726	1.7105	11,505
Total permanent equity	90,358	(16,842)	73,516	—	73,516	1.7105	125,749
Total liabilities and stockholders' equity	<u>£ 208,991</u>	<u>£ (16,842)</u>	<u>£ 192,149</u>	<u>£ 0</u>	<u>£ 192,149</u>	1.7105	<u>\$ 328,671</u>

(in thousands, except exchange rate)

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS ADJUSTED FOR US GAAP,  
RECLASSIFICATIONS AND CURRENCY TRANSLATION  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	UK GAAP GBP £ Bridgehouse Marine Limited Year Ended December 31, 2013	US GAAP Adjustments GBP £	US GAAP GBP £ Bridgehouse Marine Limited Year Ended December 31, 2013	Reclassifications GBP £	Reclassified US GAAP GBP £ Bridgehouse Marine Limited Year Ended December 31, 2013	Exchange Rate	US GAAP USD \$ Bridgehouse Marine Limited Year Ended December 31, 2013
Net revenue	£ 99,004	£ —	£ 99,004	£ —	£ 99,004	1.5642	\$ 154,862
Operating expenses							
Cost of revenue	71,913	—	71,913	—	71,913	1.5642	112,486
Selling, general and administrative	6,281	—	6,281	—	6,281	1.5642	9,825
Depreciation and amortization	9,902	(3,719)	6,183	—	6,183	1.5642	9,671
(Gain) loss on sale or disposal of assets	(40)	—	(40)	—	(40)	1.5642	(63)
<b>Total operating expenses</b>	<b>88,056</b>	<b>(3,719)</b>	<b>84,337</b>	<b>—</b>	<b>84,337</b>	<b>1.5642</b>	<b>131,919</b>
Income (loss) from operations	10,948	3,719	14,667	—	14,667	1.5642	22,943
Interest expense	(4,771)	—	(4,771)	—	(4,771)	1.5642	(7,463)
Amortization of debt discount	—	—	—	—	—	1.5642	—
Loss on early extinguishment or restructuring of debt	—	—	—	—	—	1.5642	—
Gain from contingent value rights valuation	—	—	—	—	—	1.5642	—
Interest income and other income (expense), net	1,193	—	1,193	—	1,193	1.5642	1,866
Foreign currency transaction gain (loss)	913	80	993	—	993	1.5642	1,553
Income (loss) from continuing operations before income taxes and income (loss) from equity investees	8,283	3,799	12,082	—	12,082	1.5642	18,899
Income (loss) from equity investees	3,257	—	3,257	—	3,257	1.5642	5,095
Income tax benefit (expense)	(469)	—	(469)	—	(469)	1.5642	(734)
Income (loss) from continuing operations	11,071	3,799	14,870	—	14,870	1.5642	23,260
Less: Net (income) loss attributable to the noncontrolling interest	(1,362)	—	(1,362)	—	(1,362)	1.5642	(2,130)
Income (loss) from continuing operations attributable to Bridgehouse Marine Ltd.	<u>£ 9,709</u>	<u>£ 3,799</u>	<u>£ 13,508</u>	<u>£ —</u>	<u>£ 13,508</u>	1.5642	<u>\$ 21,130</u>

(in thousands, except exchange rate)

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS ADJUSTED FOR US GAAP,  
RECLASSIFICATIONS AND CURRENCY TRANSLATION  
FOR THE SIX MONTHS ENDED JUNE 30, 2014**

	UK GAAP GBP £ Bridgehouse Marine Limited Six Months Ended June 30, 2014	US GAAP Adjustments GBP £	US GAAP GBP £ Bridgehouse Marine Limited Six Months Ended June 30, 2014	Reclassifications GBP £	Reclassified US GAAP GBP £ Bridgehouse Marine Limited Six Months Ended June 30, 2014	Exchange Rate	US GAAP USD \$ Bridgehouse Marine Limited Six Months Ended June 30, 2014
Net revenue	£ 52,731	£ —	£ 52,731	£ —	£ 52,731	1.6694	\$ 88,029
Operating expenses							
Cost of revenue	37,569	—	37,569	—	37,569	1.6694	62,718
Selling, general and administrative	3,405	—	3,405	—	3,405	1.6694	5,684
Depreciation and amortization	4,699	(1,890)	2,809	—	2,809	1.6694	4,689
(Gain) loss on sale or disposal of assets	—	—	—	—	—	1.6694	—
<b>Total operating expenses</b>	<b>45,673</b>	<b>(1,890)</b>	<b>43,783</b>	<b>—</b>	<b>43,783</b>	<b>1.6694</b>	<b>73,091</b>
Income (loss) from operations	7,058	1,890	8,948	—	8,948	1.6694	14,938
Interest expense	(1,425)	—	(1,425)	—	(1,425)	1.6694	(2,379)
Amortization of debt discount	—	—	—	—	—	1.6694	—
Loss on early extinguishment or restructuring of debt	—	—	—	—	—	1.6694	—
Gain from contingent value rights valuation	—	—	—	—	—	1.6694	—
Interest income and other income (expense), net	1,082	—	1,082	—	1,082	1.6694	1,806
Foreign currency transaction gain (loss)	1,407	(148)	1,259	—	1,259	1.6694	2,102
Income (loss) from continuing operations before income taxes and income (loss) from equity investees	8,122	1,742	9,864	—	9,864	1.6694	16,467
Income (loss) from equity investees	1,706	—	1,706	—	1,706	1.6694	2,848
Income tax benefit (expense)	(443)	—	(443)	—	(443)	1.6694	(740)
Income (loss) from continuing operations	9,385	1,742	11,127	—	11,127	1.6694	18,575
Less: Net (income) loss attributable to the noncontrolling interest	(881)	—	(881)	—	(881)	1.6694	(1,471)
Income (loss) from continuing operations attributable to Bridgehouse Marine Ltd.	<u>£ 8,504</u>	<u>£ 1,742</u>	<u>£ 10,246</u>	<u>£ —</u>	<u>£ 10,246</u>	1.6694	<u>\$ 17,104</u>

(in thousands, except exchange rate)

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS ADJUSTED FOR US GAAP,  
RECLASSIFICATIONS AND CURRENCY TRANSLATION  
FOR THE SIX MONTHS ENDED JUNE 30, 2013**

	UK GAAP GBP £ Bridgehouse Marine Limited Six Months Ended June 30, 2013	US GAAP Adjustments GBP £	US GAAP GBP £ Bridgehouse Marine Limited Six Months Ended June 30, 2013	Reclassifications GBP £	Reclassified US GAAP GBP £ Bridgehouse Marine Limited Six Months Ended June 30, 2013	Exchange Rate	US GAAP USD \$ Bridgehouse Marine Limited Six Months Ended June 30, 2013
Net revenue	£ 47,138	£ —	£ 47,138	£ —	£ 47,138	1.5434	\$ 72,753
Operating expenses							
Cost of revenue	28,479	—	28,479	—	28,479	1.5434	43,954
Selling, general and administrative	3,102	—	3,102	—	3,102	1.5434	4,788
Depreciation and amortization	4,746	(1,860)	2,886	—	2,886	1.5434	4,454
(Gain) loss on sale or disposal of assets	(84)	—	(84)	—	(84)	1.5434	(130)
<b>Total operating expenses</b>	<b>36,243</b>	<b>(1,860)</b>	<b>34,383</b>	<b>—</b>	<b>34,383</b>	<b>1.5434</b>	<b>53,066</b>
Income (loss) from operations	10,895	1,860	12,755	—	12,755	1.5434	19,687
Interest expense	(2,461)	—	(2,461)	—	(2,461)	1.5434	(3,798)
Amortization of debt discount	—	—	—	—	—	1.5434	—
Loss on early extinguishment or restructuring of debt	—	—	—	—	—	1.5434	—
Gain from contingent value rights valuation	—	—	—	—	—	1.5434	—
Interest income and other income (expense), net	37	—	37	—	37	1.5434	57
Foreign currency transaction gain (loss)	(1,551)	—	(1,551)	—	(1,551)	1.5434	(2,394)
Income (loss) from continuing operations before income taxes and income (loss) from equity investees	6,920	1,860	8,780	—	8,780	1.5434	13,552
Income (loss) from equity investees	1,597	—	1,597	—	1,597	1.5434	2,465
Income tax benefit (expense)	(212)	—	(212)	—	(212)	1.5434	(327)
Income (loss) from continuing operations	8,305	1,860	10,165	—	10,165	1.5434	15,690
Less: Net (income) loss attributable to the noncontrolling interest	(755)	—	(755)	—	(755)	1.5434	(1,165)
Income (loss) from continuing operations attributable to Bridgehouse Marine Ltd.	<u>£ 7,550</u>	<u>£ 1,860</u>	<u>£ 9,410</u>	<u>£ —</u>	<u>£ 9,410</u>	1.5434	<u>\$ 14,525</u>

(in thousands, except exchange rate)

## **Note 5. US GAAP Adjustments Explanatory Footnotes**

### **Property and Equipment, net**

U.K. GAAP: Uses historical cost or revalued amounts. Regular valuations of entire classes of assets are required when revaluation option is chosen. Bridgehouse Marine has chosen this option.

U.S. GAAP: Revaluations are not permitted.

The fixed asset register for all revalued equipment has been reworked to recalculate the depreciation charge and the net book value of these assets. The revaluation of the equipment has been reversed from the Revaluation Reserve line against the Net Book Value of the equipment, and the different depreciation charge has been reflected in retained reserves to align the accounts with U.S. GAAP conventions.

### **Goodwill**

U.K. GAAP: Negative goodwill can occur when a firm is acquired at a bargain price; that is, it is purchased for below its fair market value. Any excess over the fair value of such assets is recognized in the income statement over the period likely to benefit.

U.S. GAAP: Negative goodwill is considered an extraordinary item under U.S. GAAP. Any amounts arising from a business combination is written off to earnings as amortization expense. It is presented separately on the face of the income statement, net of taxes. Disclosure of the tax impact is either on the face of the income statement or in the notes to the financial statement.

The goodwill was purchased in 2004 (with a useful life of 24 years) and a proportion of the gain has been recognized in the financial statements each year from that date. The balance will be written off in its entirety to align the accounts with U.S. GAAP conventions.

### **Joint Ventures**

U.K. GAAP: Distinguishes between three types of joint ventures/arrangements: jointly controlled entities; joint arrangements that are not entities and contractual arrangements with the form but not the substance of a joint venture.

U.S. GAAP: Only refers to jointly controlled entities, where the arrangement is carried through a separate corporate entity.

Bridgehouse Marine joint ventures arrangements are solely of the former type so no adjustments are necessary.

### **Associates**

An associate is an entity over which the investor has significant influence – that is, the power to participate in, but not control, the definition of an associate's financial and operating policies. Participation in the entity's financial and operating policies via representation on the entities board demonstrates significant influence. A 20% or more interest by an investor in an entity's voting rights leads to a presumption of significant influence. The only difference between U.K. and U.S. GAAP is the presentation of results (operating profit, exceptional items, interest and tax) are reported separately. The Associates results in the financial statements will be amalgamated to reflect the U.S. GAAP results.

### **Deferred Taxes**

U.K. GAAP: Under U.K. GAAP deferred taxation is provided in full on all material timing differences. Deferred tax assets are recognized where their recovery is considered more likely than not.

U.S. GAAP: U.S. GAAP requires deferred taxation to be provided in full using the liability method. In addition U.S. GAAP requires the recognition of the deferred tax consequences of differences between the assigned values and the tax bases of the identifiable intangible assets, with the exception of tax-deductible goodwill, in a purchase business combination.

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A deduction of the asset amounts within the deferred tax balance has occurred to ensure adherence to the liability only method.

### **Provisions**

UK GAAP and US GAAP have specific and very similar standards on accounting for provisions generally. With this in mind no adjustments are required.

### **Stock (Inventory)**

Both US and UK GAAP define inventory as assets that are: held for sale in the ordinary course of the business; in the process of production or for sale in the form of materials; or supplies to be consumed in the production process or in rendering services. Therefore no adjustments are necessary for the Inventory balance.

### **Leases**

There are no differences in accounting for Leases in US and UK GAAP.

### **Revenue (maintenance contracts)**

For US GAAP, revenue is recognized on a straight line basis unless the pattern of costs indicates otherwise. A loss must be recognized immediately if the expected costs during the contract exceed unearned revenue. Bridgehouse Marine accounts for maintenance contracts in this fashion so no adjustments are necessary.

### **Pensions**

Bridgehouse Marine's defined benefit schemes have been calculated and accounted for under FRS17 with guidance from Aon Hewitt. For the period ended December 31, 2013, Global Marine Systems held a liability of £31.093 million for The Global Marine Systems Pension Plan.

Assumptions in reaching the Actuarial valuations can generally be taken as the same for US GAAP and FRS17 hence assets and liabilities are usually the same for balance sheet purposes. The key difference is in relation to the income statement and the recognition of gains and losses going forward. Gains and losses go through the Statement of Total Realised Gains and Losses (STRGL) rather than the Income Statement. For US GAAP, gains and losses are typically spread through the income statement to the extent they exceed a corridor. The corridor is typically measured as 10% of the maximum of the liabilities and the assets. It is possible to use a market related value of assets for assessing the return on assets that go through the Income Statement but to keep things as close as possible to FRS17 a company does not have to use a market related value for this and can just utilize the FRS17 method which uses the fair value of plan assets to determine the return on assets over the period.

There is an acknowledgment of these differences between the valuation methods of FRS17 and US GAAP (FAS 87), but it is considered that any movement in fund values and mortality assumptions will have no material effect on the Actuarial assumptions between the December 31, 2013 and June 30, 2014 balance sheet dates. Therefore no adjustments are to be made for the purpose of this exercise.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF HC2

*Unless the context requires otherwise, in this "Management's Discussion and Analysis of Financial Condition and Results of Operations of HC2," references to the "Company," "HC2," "we," "us" or "our" refer to HC2 Holdings Inc. and, where applicable, its consolidated subsidiaries; "Schuff" refers to Schuff International, Inc. and, where applicable, its consolidated subsidiaries; "Global Marine" or "GMSL" refer, collectively, to Global Marine Systems Limited and where applicable, the consolidated subsidiaries of Global Marine Systems Limited and Bridgehouse Marine Limited, the parent and holding company of Global Marine Systems Limited; "ANG" refers to American Natural Gas, Inc.; "PTGi-ICS" or "ICS" refers to PTGi International Carrier Services, Inc. and its associated, indirectly owned UK operating company. "US GAAP" means accounting principles accepted in the United States of America.*

### HC2 Introduction and Overview of Operations

We are a diversified holding company focused on acquiring and investing in businesses with attractive assets that we consider to be undervalued or fairly valued and growing our acquired businesses. Our principal holdings include the following assets: (i) Schuff, our 90.6% owned subsidiary that operates as an integrated fabricator and erector of structural steel and heavy steel plates; (ii) Global Marine, our majority owned offshore marine engineering and subsea cable installation subsidiary; (iii) ANG, our 51% owned subsidiary, engaged in the business of providing compressed natural gas as an alternative fuel for motor vehicles; (iv) ICS, our wholly-owned indirect subsidiary, providing wholesale services to international wholesale fixed and mobile telecommunications network operators and (v) Genovel, a life sciences company involved with the development of products to treat early osteoarthritis of the knee. While we search for additional acquisition opportunities, we manage a portion of our available cash and acquire interests in possible acquisition targets through our wholly-owned subsidiary, HC2 Investment Securities, LLC, a Delaware limited liability company. We were incorporated in Delaware in 1994 under the name Primus Telecommunications Group, Inc, and reincorporated in 2013 to change our name to PTGi Holding, Inc. On April 9, 2014, we reincorporated to change our name to HC2 Holdings, Inc. Our common stock trades under the symbol "HCHC."

We currently have five reportable operating segments based on management's organization of the enterprise—Manufacturing, which includes Schuff; Marine Services, which includes Global Marine; Telecommunications, which includes ICS; Life Sciences, which includes Genovel; and Utilities which includes ANG.

We have also historically operated a network of direct routes and provided premium voice communication services for national telecom operators, mobile operators, wholesale carriers, prepaid operators, Voice over Internet Protocol ("VoIP") service operators and Internet service providers ("ISPs"). We have provided telecommunications services from our North America Telecom ("NAT") and International Carrier Services ("ICS") business units. In the second quarter of 2013, we entered into a definitive purchase agreement to sell entities comprising its NAT business and sought shareholder approval of such transaction. On July 31, 2013, we completed the initial closing for the sale of substantially all of our NAT business entities. The sale of our subsidiary Primus Telecommunications, Inc. ("PTI") was also contemplated as part of this transaction, and subject to regulatory approval. On July 31, 2014, having received the necessary regulatory approvals for PTI, we completed the divestiture of the remainder of our NAT business.

### Recent Events

#### Schuff Acquisition

On May 29, 2014, we completed the acquisition of 2.5 million shares of common stock of Schuff, a steel fabrication and erection company and negotiated an agreement to purchase an additional 198,411 shares, representing an approximately 65% interest in Schuff. Schuff repurchased a portion of its outstanding common stock in June and July 2014, which had the effect of increasing our ownership interest to 70%. On September 7, 2014, we announced the final results of a tender offer to acquire the remaining shares of Schuff, through which we increased our ownership of Schuff to 89.0%. On October 29, 2014, we entered into an open-market transaction to increase our ownership of Schuff to 90.6%, and we intend to execute a short-form merger as soon as practicable. Such short-form merger will increase our ownership of Schuff shares to 100%.

In connection with the Schuff Acquisition, on May 29, 2014, we issued 30,000 shares of Series A Preferred Stock and 1,500,000 shares of common stock, the proceeds of which were used to pay for a portion of the purchase price for the acquisition of Schuff. Each share of Series A Preferred Stock is initially convertible at a conversion price of \$4.25, which is subject to adjustment for dividends, certain distributions, stock splits, combinations, reclassifications, reorganizations, mergers, recapitalizations and similar events. The Series A Preferred Stock will accrue a cumulative quarterly cash dividend at an annualized rate of 7.5%. The accrued value of the Series A Preferred Stock will accrete quarterly at an annualized rate of 4% that will be reduced to 2% or 0% if we achieve specified rates of growth measured by increases in its net asset value.

#### **ANG Acquisition**

On August 1, 2014, we paid \$15.5 million to acquire 15,500 shares of Series A Convertible Preferred Stock of ANG, representing an approximately 51% ownership interest. ANG is a premier distributor of natural gas motor fuel in the Northeast that designs, builds, owns, operates and maintains compressed natural gas fueling stations for transportation.

#### **Novatel Investment**

On September 3, 2014, we also made an investment of \$14.4 million to acquire a 17% equity stake in Novatel Wireless, Inc., a publicly listed company that designs and develops wireless communications technologies.

#### **Global Marine Acquisition**

On September 22, 2014, we, through our U.S. subsidiary Global Marine Holdings, LLC, completed the acquisition of 97% of the equity interests of Bridgehouse Marine Limited, the parent holding company of Global Marine Services, Ltd. The net consideration was approximately \$126 million, which was funded using the net proceeds from (i) the issuance of \$11 million of Series A-1 Convertible Participating Preferred Stock of HC2 and (ii) the Bridge Loan. With a portion of those proceeds, we paid off our existing credit facilities.

#### **NerVve Investment**

On October 17, 2014, we acquired a minority interest in NerVve Technologies known for its leading visual search engine, the NerVve Visual Search Solution, through the purchase of \$5.0 million in its Series A-Preferred Stock.

#### **Discontinued Operations**

In the second quarter of 2013, we sold our BLACKIRON Data segment and reiterated our June 2012 commitment to dispose of ICS. In addition, in the second quarter of 2013, we entered into a definitive purchase agreement to sell our NAT business and sought shareholder approval of such transaction. On July 31, 2013, we completed the initial closing of the sale of our NAT business. In conjunction with the initial closing of the sale of the NAT business, we redeemed the outstanding debt issued by PTGi International Holding, Inc. ("PTHI") on August 30, 2013. Because the debt was required to be repaid as a result of the sale of NAT, the interest expense and loss on early extinguishment or restructuring of debt of PTHI has been allocated to discontinued operations. In December 2013, based on management's assessment of the requirements under ASC 360, it was determined that ICS no longer met the criteria of a held for sale asset. On February 11, 2014, the Board of Directors officially ratified management's December 2013 assessment, and reclassified ICS from held for sale to held and used, effective December 31, 2013. As a result, ICS became classified as a continuing operation. ICS had been classified as a discontinued operation since the second quarter of 2012 as a result of being held for sale.

As a result of these events, our condensed consolidated financial statements reflect BLACKIRON Data and NAT as well as PTHI's interest expense and loss on early extinguishment or restructuring of debt, as discontinued operations for the three and six months ended June 30, 2013. Accordingly, revenue, costs and expenses of the discontinued operations have been excluded from the respective captions in the condensed consolidated statements of operations. The net operating results of the discontinued operations have been reported, net of applicable income taxes as income or loss

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(where applicable) from discontinued operations. The assets and liabilities of the remaining portion of NAT, PTI, have been classified as held for sale assets and liabilities as of June 30, 2014 and December 31, 2013. The held for sale assets and liabilities were removed from the specific line items on the condensed consolidated balance sheets as of June 30, 2014 and December 31, 2013.

Summarized operating results of the discontinued operations are as follows (in thousands):

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Net revenue	\$ 3,190	\$ 50,316	\$ 6,468	\$ 111,199
Operating expenses	3,113	46,070	6,342	100,327
Income from operations	77	4,246	126	10,872
Interest expense	(3)	(4,260)	(3)	(8,509)
Interest income and other income (expense)	(25)	28	(51)	46
Foreign currency transaction loss	—	(262)	—	(339)
Income (loss) before income tax	49	(248)	72	2,070
Income tax (expense)	(22)	(359)	(28)	(298)
Income from discontinued operations	\$ 27	\$ (607)	\$ 44	\$ 1,772

### Foreign Currency

Foreign currency can impact our financial results. During the three months ended June 30, 2014, approximately 16.2% of our net revenue from continuing operations was derived from sales and operations outside the U.S. The reporting currency for our condensed consolidated financial statements is the USD. The local currency of each country is the functional currency for each of our respective entities operating in that country. In the future, we expect to continue to derive a portion of our net revenue and incur a portion of our operating costs from outside the U.S., and therefore changes in exchange rates may continue to have a significant, and potentially adverse, effect on our results of operations. Our risk of loss regarding foreign currency exchange rate risk is caused primarily by fluctuations in the GBP exchange rate. Due to a percentage of our revenue derived outside of the U.S., changes in the USD relative to the GBP could have an adverse impact on our future results of operations. In addition, prior to the sale of BLACKIRON Data and NAT during the second and third quarters of 2013, respectively, we also experienced risk of loss regarding foreign currency exchange rates due to fluctuations in the USD/CAD exchange rates. We have agreements with certain subsidiaries for repayment of a portion of the investments and advances made to these subsidiaries. As we anticipate repayment in the foreseeable future, we recognize the unrealized gains and losses in foreign currency transaction gain (loss) on the condensed consolidated statements of operations. The exposure of our income from operations to fluctuations in foreign currency exchange rates is reduced in part because a majority of the costs that we incur in connection with our foreign operations are also denominated in local currencies.

We are exposed to financial statement gains and losses as a result of translating the operating results and financial position of our international subsidiaries. We translate the local currency statements of operations of our foreign subsidiaries into USD using the average exchange rate during the reporting period. Changes in foreign exchange rates affect the reported profits and losses and cash flows of our international subsidiaries and may distort comparisons from year to year. By way of example, when the USD strengthens compared to the GBP, there could be a negative or positive effect on the reported results for ICS, depending upon whether the business in ICS is operating profitably or at a loss. It takes more profits in GBP to generate the same amount of profits in USD and a greater loss in GBP to generate the same amount of loss in USD. The opposite is also true. For instance, when the USD weakens against the GBP, there is a positive effect on reported profits and a negative effect on the reported losses for ICS.

## Results of Operations

### Six Months Ended June 30, 2014 Compared to Six Months Ended June 30, 2013

(in thousands)	Six Months Ended				Year-over-Year	
	June 30, 2014		June 30, 2013		Variance	Variance %
	Net Revenue	% of Total	Net Revenue	% of Total		
Telecommunications	85,465	61.1%	117,410	100.0%	(31,945)	-27.2%
Manufacturing	54,475	38.9%	—	0.0%	54,475	100.0%
<b>Total Net Revenue</b>	<b>139,940</b>	<b>100.0%</b>	<b>117,410</b>	<b>100.0%</b>	<b>22,530</b>	<b>19.2%</b>

#### Net revenue:

Net revenue increased \$22.5 million, or 19.2%, to \$139.9 million for the six months ended June 30, 2014 from \$117.4 million for the six months ended June 30, 2013. The increase is primarily due to our acquisition of Schuff. The decrease in Telecommunications is primarily due to a significant decline in both domestic and international terminations year over year.

(in thousands)	Six Months Ended				Year-over-Year	
	June 30, 2014		June 30, 2013		Variance	Variance %
	Cost of Revenue	% of Net Revenue	Cost of Revenue	% of Net Revenue		
Telecommunications	80,637	94.4%	110,952	94.5%	(30,315)	-27.3%
Manufacturing	43,330	79.5%	—	0.0%	43,330	100.0%
<b>Total Cost of Revenue</b>	<b>123,967</b>	<b>88.6%</b>	<b>110,952</b>	<b>94.5%</b>	<b>13,015</b>	<b>11.7%</b>

#### Cost of revenue:

Cost of revenue increased \$13.0 million to \$124.0 million, or 88.6% of net revenue, for the six months ended June 30, 2014 from \$111.0 million, or 94.5% of net revenue, for the six months ended June 30, 2013. The increase is primarily due to our acquisition of Schuff. The decrease in Telecommunications is primarily due to the decrease in net revenue. While there have been significant declines in both revenue and cost of revenue in Telecommunications, cost of revenue as a percentage of net revenue remained relatively flat.

(in thousands)	Six Months Ended				Year-over-Year	
	June 30, 2014		June 30, 2013		Variance	Variance %
	SG&A	% of Net Revenue	SG&A	% of Net Revenue		
Telecommunications	5,376	6.3%	15,485	13.2%	(10,109)	-65.3%
Life Sciences	935	0.0%	—	0.0%	935	100.0%
Manufacturing	6,439	11.8%	—	0.0%	6,439	100.0%
Corporate	7,486	0.0%	7,971	0.0%	(485)	-6.1%
<b>Total SG&amp;A</b>	<b>20,236</b>	<b>14.5%</b>	<b>23,456</b>	<b>20.0%</b>	<b>(3,220)</b>	<b>-13.7%</b>

#### Selling, general and administrative expenses:

Selling, general and administrative expenses decreased \$3.2 million to \$20.2 million, or 14.5% of net revenue, for the six months ended June 30, 2014 from \$23.4 million, or 20.0% of net revenue, for the six months ended June 30, 2013. The decrease in Telecommunications was primarily due to a \$4.9 million decrease in salaries and benefits resulting from headcount reductions, \$3.3 million lower professional fees, \$0.9 million lower rent expense and \$0.9 million decrease in general and administrative expenses. The decrease in Corporate was primarily due to a

\$5.2 million decrease in salaries and benefits resulting from headcount reductions partially offset by \$2.5 million higher rent expense and \$2.1 million higher professional fees. The increase in Manufacturing was due to our acquisition of Schuff.

**Depreciation and amortization expense:**

Depreciation and amortization expense for the six months ended June 30, 2014 was \$1.0 million, a portion of which was included in cost of revenue. Depreciation expense was an immaterial amount for the six months ended June 30, 2013 as the property and equipment of Telecommunications was included in assets held for sale. In accordance with US GAAP, held for sale assets are not depreciated. When Telecommunications was no longer considered to be held for sale, we began to record depreciation based on the revised carrying values.

**Interest expense:**

Interest expense was \$1.0 million for the six months ended June 30, 2014. Interest expense was immaterial for the six months ended June 30, 2013. Interest expense in 2014 was due to our new credit facilities.

**Gain from contingent rights valuation:**

The gain from the change in fair value of the Contingent Value Rights ("CVRs") for the six months ended June 30, 2013 was \$14.9 million. Estimates of fair value represent our best estimates based on a pricing model and have historically been correlated to and reflective of our common stock trends. Generally, as the fair value of our common stock increased/decreased, the fair value of the CVRs increased/decreased and a loss/gain from CVR valuation was recorded. The sale of substantially all of North America Telecom constituted a change of control under the CVR Agreement and resulted in the expiration of the CVRs and termination of the CVR Agreement in 2013. Accordingly, there was no gain from the change in fair value of the CVRs for the six months ended June 30, 2014.

**Interest income and other expense, net:**

Interest income and other expense, net was income of \$1.6 million and expense of \$0.1 million for the six months ended June 30, 2014 and 2013, respectively. The increase was primarily due to gains recorded on an insurance policy and the sale of an investment.

**Foreign currency transaction gain (loss):**

Foreign currency transaction gain (loss) was a gain of \$0.4 million and a loss of \$0.3 million for the six months ended June 30, 2014 and 2013, respectively. The gains and losses are attributable to the impact of foreign currency exchange rate changes on intercompany debt balances and on receivables and payables denominated in a currency other than the subsidiaries' functional currency.

**Income tax expense:**

Income tax expense was \$2.0 million and \$0.2 million for the six months ended June 30, 2014 and June 30, 2013, respectively. The increase in tax expense was due primarily to the acquisition of Schuff.

**Year Ended December 31, 2013 Compared to Year Ended December 31, 2012**

	Exclusive of Currency Effect						Currency Effect	Inclusive of Currency Effect	
	Year Ended				Year-over-Year			Year Ended	
	December 31, 2013		December 31, 2012		Variance	Variance %		December 31, 2013	
Net Revenue	% of Total	Net Revenue	% of Total	Net Revenue			% of Total		
(in thousands)									
International Carrier Services	232,505	100.0%	302,959	100.0%	(70,454)	-23.3%	(1,819)	230,686	100.0%
Total Net Revenue	<u>232,505</u>	<u>100.0%</u>	<u>302,959</u>	<u>100.0%</u>	<u>(70,454)</u>	<u>-23.3%</u>	<u>(1,819)</u>	<u>230,686</u>	<u>100.0%</u>

**Net revenue:**

Net revenue, exclusive of the currency effect, decreased \$70.5 million, or 23.3%, to \$232.5 million for the year ended December 31, 2013 from \$303.0 million for the year ended December 31, 2012. Inclusive of the currency effect which accounted for a decrease of \$1.8 million, net revenue decreased \$72.3 million to \$230.7 million for the year ended December 31, 2013 from \$303.0 million for the year ended December 31, 2012. The decrease is primarily due to a significant decline in both domestic and international terminations year over year.

(in thousands)	Exclusive of Currency Effect						Currency Effect	Inclusive of Currency Effect	
	Year Ended				Year-over-Year			Year Ended	
	December 31, 2013		December 31, 2012		Variance	Variance %		December 31, 2013	
Cost of Revenue	% of Net Revenue	Cost of Revenue	% of Net Revenue	Cost of Revenue			% of Net Revenue		
International Carrier Services	222,066	95.5%	285,631	94.3%	(63,565)	-22.3%	(1,751)	220,315	95.5%
Total Cost of Revenue	<u>222,066</u>	<u>95.5%</u>	<u>285,631</u>	<u>94.3%</u>	<u>(63,565)</u>	<u>-22.3%</u>	<u>(1,751)</u>	<u>220,315</u>	<u>95.5%</u>

**Cost of revenue:**

Cost of revenue, exclusive of the currency effect, decreased \$63.6 million to \$222.1 million, or 95.5% of net revenue, for the year ended December 31, 2013 from \$285.6 million, or 94.3% of net revenue, for the year ended December 31, 2012. Inclusive of the currency effect, which accounted for a \$1.8 million decrease, cost of revenue decreased \$65.3 million to \$220.3 million for the year ended December 31, 2013 from \$285.6 million for the year ended December 31, 2012. The decrease is primarily due to the decrease in net revenue. While there have been significant declines in both net revenue and cost of revenue, exclusive of currency, cost of revenue as a percentage of net revenue remained flat; and inclusive of currency, decreased only 120 basis points year over year.

(in thousands)	Exclusive of Currency Effect						Currency Effect	Inclusive of Currency Effect	
	Year Ended				Year-over-Year			Year Ended	
	December 31, 2013		December 31, 2012		Variance	Variance %		December 31, 2013	
SG&A	% of Net Revenue	SG&A	% of Net Revenue	SG&A			% of Net Revenue		
International Carrier Services	16,312	7.0%	20,536	6.8%	(4,224)	-20.6%	(40)	16,272	7.1%
Corporate	18,420	0.0%	24,666	0.0%	(6,246)	-25.3%	—	18,420	0.0%
Total SG & A	<u>34,732</u>	<u>14.9%</u>	<u>45,202</u>	<u>14.9%</u>	<u>(10,470)</u>	<u>-23.2%</u>	<u>(40)</u>	<u>34,692</u>	<u>15.0%</u>

**Selling, general and administrative expenses:**

Selling, general and administrative expenses, exclusive of the currency effect, decreased \$10.5 million to \$34.7 million, or 14.9% of net revenue, for the year ended December 31, 2013 from \$45.2 million, or 14.9% of net revenue, for the year ended December 31, 2012. The currency effect was immaterial. The decrease is primarily due to a \$3.8 million decrease in salaries and benefits, a \$3.2 million decrease in general and administrative expenses, a \$2.5 million decrease in professional fees, a \$0.6 million decrease in occupancy costs and a \$0.4 million decrease in travel and entertainment expenses.

**Depreciation and amortization expense:**

Depreciation and amortization expense increased \$8.8 million to \$12.0 million for the year ended December 31, 2013 from \$3.2 million for the year ended December 31, 2012. Depreciation and amortization expense in 2013 includes depreciation and amortization for the period July 1, 2012 – December 31, 2013, when the property and equipment of ICS was included in assets held for sale. In accordance with US GAAP, held for sale assets are not depreciated. When ICS was no longer considered to be held for sale, we were required to record all unrecorded depreciation in the fourth quarter of 2013.

**Asset impairment expense:**

Asset impairment expense decreased \$17.5 million to \$2.8 million for the year ended December 31, 2013 from \$20.3 million for the year ended December 31, 2012. For the year ended December 31, 2013, asset impairment expense primarily includes \$2.0 million related to the impairment of property and equipment as a result of reclassifying ICS from held for sale to held and used. For the year ended December 31, 2012, asset impairment expense includes \$10.3 million related to the write down of carrying value of ICS when it was classified as a held for sale asset in the second quarter of 2012 and \$10.0 million related to the impairment of our U.S. trade name, "Primus Telecommunications."

**Gain (loss) from contingent rights valuation:**

The gain from the change in fair value of the CVRs increased \$13.6 million to a \$14.9 million gain for the year ended December 31, 2013 from a \$1.3 million gain for the year ended December 31, 2012. Estimates of fair value represent the Company's best estimates based on a pricing model and have historically been correlated to and reflective of our common stock trends. Generally, as the fair value of our common stock increased/decreased, the fair value of the CVRs increased/decreased and a loss/gain from CVR valuation was recorded. As a result of the pending sale of North America Telecom during the second quarter of 2013, which would constitute a change of control under the CVR Agreement and likely result in the expiration of the CVRs and termination of the CVR Agreement absent any required distribution of shares of our common stock with respect to the CVRs, the fair value of the CVRs was marked at zero as of June 30, 2013. See Note 9—"Stockholders' Equity" and Note 11—"Fair Value of Financial Instruments and Derivatives" in "Notes to Financial Statements" filed by HC2 March 31, 2014, on Form 10-K for a further discussion of the valuation and expiration of the CVRs in connection with the North America Telecom transaction.

**Interest income and other income (expense), net:**

Interest income and other income (expense), net decreased \$0.3 million to expense of \$0.2 million for the year ended December 31, 2013 from income of \$0.1 million for the year ended December 31, 2012.

**Foreign currency transaction gain (loss):**

Foreign currency transaction gain decreased \$3.1 million to a \$0.6 million loss for the year ended December 31, 2013 from a gain of \$2.5 million for the year ended December 31, 2012. The gains and losses are attributable to the impact of foreign currency exchange rate changes on intercompany debt balances and on receivables and payables denominated in a currency other than the subsidiaries' functional currency. We incurred a foreign currency translation loss on the intercompany payable balances that our Canadian subsidiaries had with our U.S. subsidiaries due to a decrease in the exchange rate in the first quarter of 2013. We incurred a foreign currency translation gain on the intercompany payable balances that our Canadian subsidiaries had with our U.S. subsidiaries due to an increase in the exchange rate in the first and third quarters of 2012.

**Income tax benefit (expense):**

Income tax benefit increased \$4.3 million to \$7.4 million for the year ended December 31, 2013 from \$3.1 million for the year ended December 31, 2012. Included in the benefit for the year ended December 31, 2013 is a benefit from reversing foreign withholding tax, expiration of the statute of limitations and state tax refunds. Included in the benefit for the year ended December 31, 2012 is a benefit from the release of a liability on our U.S. trade name, "Primus Telecommunications," and certain ASC 740 liabilities as a result of the expiration of the statute of limitations, partially offset by expenses consisting of a provision for foreign income taxes and foreign withholding tax on intercompany interest.

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**Year Ended December 31, 2012 Compared to Year Ended December 31, 2011**

(in thousands)	Exclusive of Currency Effect							Inclusive of Currency Effect	
	Year Ended				Year-over-Year		Year Ended		
	December 31, 2012		December 31, 2011		Variance	Variance %	Currency Effect	December 31, 2012	
Net Revenue	% of Total	Net Revenue	% of Total	Net Revenue				% of Total	
International Carrier Services	305,499	100.0%	411,983	100.0%	(106,484)	-25.8%	(2,540)	302,959	100.0%
Total Net Revenue	305,499	100.0%	411,983	100.0%	(106,484)	-25.8%	(2,540)	302,959	100.0%

**Net revenue:**

Net revenue, exclusive of the currency effect, decreased \$106.5 million, or 25.8%, to \$305.5 million for the year ended December 31, 2012 from \$412.0 million for the year ended December 31, 2011. Inclusive of the currency effect which accounted for a decrease of \$2.5 million, net revenue decreased \$109.0 million to \$303.0 million for the year ended December 31, 2012 from \$412.0 million for the year ended December 31, 2011. The decrease is primarily due to a significant decline in both domestic and international terminations year over year.

(in thousands)	Exclusive of Currency Effect							Inclusive of Currency Effect	
	Year Ended				Year-over-Year		Year Ended		
	December 31, 2012		December 31, 2011		Variance	Variance %	Currency Effect	December 31, 2012	
Cost of Revenue	% of Net Revenue	Cost of Revenue	% of Net Revenue	Cost of Revenue				% of Net Revenue	
International Carrier Services	288,055	94.3%	389,412	94.5%	(101,357)	-26.0%	(2,424)	285,631	94.3%
Total Cost of Revenue	288,055	94.3%	389,412	94.5%	(101,357)	-26.0%	(2,424)	285,631	94.3%

**Cost of revenue:**

Cost of revenue, exclusive of the currency effect, decreased \$101.4 million to \$288.0 million, or 94.3% of net revenue, for the year ended December 31, 2012 from \$389.4 million, or 94.5% of net revenue, for the year ended December 31, 2011. Inclusive of the currency effect, which accounted for a \$2.4 million decrease, cost of revenue decreased \$103.8 million to \$285.6 million for the year ended December 31, 2012 from \$389.4 million for the year ended December 31, 2011. The decrease is primarily due to the decrease in net revenue. While there have been significant declines in both net revenue and cost of revenue, exclusive of currency, cost of revenue as a percentage of net revenue remained flat; and inclusive of currency, decreased only 20 basis points year over year.

(in thousands)	Exclusive of Currency Effect							Inclusive of Currency Effect	
	Year Ended				Year-over-Year		Year Ended		
	December 31, 2012		December 31, 2011		Variance	Variance %	Currency Effect	December 31, 2012	
SG&A	% of Net Revenue	SG&A	% of Net Revenue	SG&A				% of Net Revenue	
International Carrier Services	20,599	6.7%	21,275	5.2%	(676)	-3.2%	(62)	20,537	6.8%
Corporate	24,665	0.0%	21,024	0.0%	3,641	17.3%	—	24,665	0.0%
Total SG & A	45,264	14.8%	42,299	10.3%	2,965	7.0%	(62)	45,202	14.9%

**Selling, general and administrative expenses:**

Selling, general and administrative expenses, exclusive of the currency effect, increased \$3.0 million to \$45.3 million, or 14.8% of net revenue, for the year ended December 31, 2012 from \$42.3 million, or 10.3% of net revenue, for the year ended December 31, 2011. Inclusive of the currency effect, which accounted for a \$0.1 million decrease, selling, general and administrative expenses decreased \$2.9 million to \$45.2 million for the year ended December 31, 2012 from \$42.3 million for the year ended December 31, 2011. The increase is primarily due to a \$3.4 million increase in salaries and benefits, and a \$0.9 million increase in professional fees, partially offset by a \$1.3 million decrease in general and administrative expenses.

**Depreciation and amortization expense:**

Depreciation and amortization expense decreased \$3.4 million to \$3.2 million for the year ended December 31, 2012 from \$6.6 million for the year ended December 31, 2011. Depreciation and amortization expense in 2012 included depreciation and amortization for only the period January 1, 2012 – June 30, 2012 as the property and equipment of ICS was reclassified to assets held for sale on June 30, 2012 and depreciation ceased.

**Asset impairment expense:**

Asset impairment expense increased \$5.6 million to \$20.3 million for the year ended December 31, 2012 from \$14.7 million for the year ended December 31, 2011. For the year ended December 31, 2012, asset impairment expense includes \$10.3 million related to the write down of carrying value of ICS when it was classified as a held for sale asset in the second quarter of 2012 and \$10.0 million related to the impairment of our U.S. trade name, "Primus Telecommunications". For the year ended December 31, 2011, asset impairment expense includes \$14.7 million related to the impairment of goodwill associated with the acquisition of Arbinet Corporation in the first quarter of 2011.

**Gain (loss) from contingent value rights valuation:**

The gain from the change in fair value of the contingent value rights decreased \$1.6 million to a gain of \$1.3 million for the year ended December 31, 2012 from a gain of \$2.9 million for the year ended December 31, 2011. Estimates of fair value represent the Company's best estimates based on a pricing model and are correlated to and reflective of our common stock trends. As the fair value of our common stock increases/decreases, the fair value of the contingent value rights increases/decreases and a loss/gain from contingent rights valuation is recorded.

**Interest income and other income (expense), net:**

Interest income and other income (expense), net decreased \$0.1 million to income of \$0.1 million for the year ended December 31, 2012 from \$0.2 million for the year ended December 31, 2011.

**Foreign currency transaction gain (loss):**

Foreign currency transaction loss decreased \$6.8 million to a gain of \$2.5 million for the year ended December 31, 2012 from a loss of \$4.3 million for the year ended December 31, 2011. The gains and losses are attributable to the impact of foreign currency exchange rate changes on intercompany debt balances and on receivables and payables denominated in a currency other than the subsidiaries' functional currency. We incurred a foreign currency translation gain on the intercompany payable balances that our Canadian subsidiaries had with our U.S. subsidiaries due to an increase in the exchange rate in the first and third quarters of 2012. We incurred a foreign currency loss on the intercompany balances that our Canadian and Australian subsidiaries had with our U.S. subsidiaries due to decreases in the exchange rate in the third quarter of 2011.

**Income tax benefit (expense):**

Income tax benefit (expense) is a \$3.1 million benefit for the year ended December 31, 2012 compared to a \$1.1 million expense for the year ended December 31, 2011. Included in the benefit for the year ended December 31, 2012 is a benefit from the release of a liability on our U.S. trade name, "Primus Telecommunications," and certain ASC

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740 liabilities as a result of the expiration of the statute of limitations, partially offset by expenses consisting of a provision for foreign income taxes and foreign withholding tax on intercompany interest. Included in the expense for the year ended December 31, 2011 is a provision for foreign withholding and state taxes.

## **Liquidity and Capital Resources**

### **Important Long-Term Liquidity and Capital Structure Developments:**

#### ***Credit Facilities:***

On September 22, 2014, HC2 entered into the Bridge Loan and repaid in full its existing credit facilities.

#### ***Escrow Deposits:***

We have certain escrow deposits associated with the sales of BLACKIRON Data and NAT during 2013 which have various conditions for their release. In connection with the sale of BLACKIRON Data, CAD\$20.0 million (or approximately USD\$19.5 million giving effect to the currency exchange rate on the day of sale) was retained from the purchase price and placed into escrow until July 17, 2014 for purposes of satisfying potential indemnification claims pursuant to the purchase agreement. In July 2014, we received escrow proceeds of \$19.5 million, a majority of which was used to pay down a then existing credit facility. In connection with the sale of NAT, several different escrow deposits were established, all with varying release conditions and dates which in total amounted to \$18.25 million. Pursuant to the terms of the purchase agreement, \$6.45 million of the purchase price was placed in escrow to be released 14 months after the closing date, subject to any deductions required to satisfy indemnification obligations of HC2 under the purchase agreement. In addition, \$4.0 million of the purchase price was placed in escrow to cover any payments required in connection with the post-closing working capital and cash adjustments, of which \$3.2 million was disbursed to us and \$0.8 million was disbursed to the purchaser upon completion of such adjustments in February 2014. Furthermore, \$4.8 million of the purchase price was placed in escrow to cover certain tax liabilities, which will be released after a positive ruling with respect to the underlying matter is received or 30 days after expiration of the applicable statute of limitations relating to the underlying matter. Lastly, an additional \$3.0 million was placed in escrow to be paid upon closing of the sale of PTI. On July 31, 2014, having received the necessary regulatory approvals for PTI, we completed the divestiture of the remainder of our NAT business. On July 31, 2014, the escrow proceeds of \$3.0 million was released, a portion of which was used to pay down a then existing credit facility. The \$19.5 million, \$6.45 million and \$3.0 million escrow deposits are recorded in prepaid expenses and other current assets, while the \$4.8 million escrow deposit is recorded in other assets in the condensed consolidated balance sheets.

#### ***Special Dividend:***

In August 2013, HC2's Board of Directors declared and paid a special cash dividend with respect to HC2's issued and outstanding common stock. The special dividend of \$8.50 per share was paid on August 27, 2013 to holders of record of HC2's common stock as of August 20, 2013, which resulted in a payment of an aggregate of approximately \$119.8 million to HC2 stockholders.

#### ***Changes in Cash Flows:***

Our principal liquidity requirements arise from cash used in operating activities, purchases of network and steel manufacturing equipment, including switches, related transmission equipment and capacity, development of back-office systems and income taxes. We have financed our growth and operations to date through public offerings and private placements of debt and equity securities, credit facilities, vendor financing, capital lease financing and other financing arrangements.

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**Six months Ended June 30, 2014:**

Net cash provided by operating activities was \$9.1 million for the six months ended June 30, 2014 as compared to net cash used in operating activities of \$9.0 million for the six months ended June 30, 2013. For the six months ended June 30, 2014, net income, net of non-cash operating activity, used \$3.6 million of cash. Other major drivers included a decrease in accounts receivable of \$11.9 million, an increase in accounts payable of \$6.3 million and a decrease in prepaid expenses and other current assets of \$6.2 million, partially offset by a decrease in billings in excess of costs and recognized earnings on uncompleted contracts of \$7.8 million. For the six months ended June 30, 2013, net income, net of non-cash operating activity, used \$1.3 million of cash. Other major drivers included an increase in accounts receivable of \$4.7 million, a decrease in accrued expenses, other current liabilities and other liabilities, net of \$4.4 million and a decrease in accounts payable of \$1.0 million, partially offset by a decrease in other assets of \$2.2 million and an increase in accrued income taxes of \$0.2 million.

Net cash used in investing activities was \$90.8 million for the six months ended June 30, 2014 as compared to net cash provided by investing activities of \$159.4 million for the six months ended June 30, 2013. Net cash used in investing activities for the six months ended June 30, 2014 included \$85.6 million for the Schuff acquisition, Schuff's purchase of their common stock for \$5.0 million and \$0.7 million of capital expenditures. Net cash provided by investing activities during the six months ended June 30, 2013 included \$169.6 million of net proceeds from the sale of our BLACKIRON Data segment and a decrease in restricted cash of \$0.2 million, partially offset by \$10.0 million of capital expenditures and \$0.4 million used in the acquisition of businesses.

Net cash provided by financing activities was \$113.7 million for the six months ended June 30, 2014 as compared to net cash used in financing activities of \$1.6 million for the six months ended June 30, 2013. Net cash provided by financing activities for the six months ended June 30, 2014 included \$123.4 million of proceeds from credit facilities, \$35.1 million of proceeds from the issuance of Preferred Stock and common stock and \$14.4 million of proceeds from the exercise of warrants and stock options, partially offset by \$57.7 million used to make principal payments on our credit facilities. Net cash used in financing activities during the six months ended June 30, 2013 included \$0.8 million used to pay dividend equivalents to our shareholders and \$0.8 million used to satisfy the tax obligations for shares issued under share-based compensation arrangements.

**Year Ended December 31, 2013:**

Net cash used in operating activities was \$20.3 million for the year ended December 31, 2013 as compared to net cash provided by operating activities of \$23.6 million for the year ended December 31, 2012. For the year ended December 31, 2013, net income, net of non-cash operating activity, used \$1.3 million of cash. Other major drivers included a decrease in accrued expenses, deferred revenue, other current liabilities and other liabilities, net of \$7.8 million, a decrease in accrued income taxes of \$7.4 million, an increase in prepaid expenses and other current assets of \$4.8 million, an increase in accounts receivable of \$2.9 million, a decrease in accounts payable of \$2.0 million and a decrease in accrued interest of \$1.7 million, partially offset by an increase in accrued interconnection costs of \$4.4 million and a decrease in other assets of \$3.2 million.

Net cash provided by operating activities was \$23.6 million for the year ended December 31, 2012 as compared to \$42.9 million for the year ended December 31, 2011. For the year ended December 31, 2012, net income, net of non-cash operating activity, provided \$28.6 million of cash. Other major drivers included a decrease in accounts receivable of \$16.4 million, partially offset by a decrease in accrued expenses, deferred revenue, other current liabilities and other liabilities, net of \$9.4 million, a decrease in accounts payable of \$8.4 million and a decrease in accrued interest of \$3.9 million.

Net cash provided by investing activities was \$258.1 million for the year ended December 31, 2013 as compared to \$149.7 million for the year ended December 31, 2012. Net cash provided by investing activities during the year ended December 31, 2013 included \$270.6 million of net proceeds from the sale of our BLACKIRON Data and North America Telecom segments and a decrease in restricted cash of \$0.5 million, partially offset by \$12.6 million of capital expenditures and \$0.4 million used in the acquisition of businesses.

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Net cash provided by investing activities was \$149.7 million for the year ended December 31, 2012 as compared to net cash used in investing activities of \$2.3 million for the year ended December 31, 2011. Net cash provided by investing activities during the year ended December 31, 2012 included \$183.1 million of net proceeds from the sale of Primus Australia, partially offset by \$31.7 million of capital expenditures and \$1.7 million used in the acquisition of businesses.

Net cash used in financing activities was \$250.1 million for the year ended December 31, 2013 as compared to \$191.1 million for the year ended December 31, 2012. Net cash used in financing activities during the year ended December 31, 2013 included \$127.7 million used in the redemption of the 13% Notes, 10% Notes and 10% Exchange Notes, \$119.8 million used to pay a special cash dividend to our shareholders, \$1.2 million used to pay fees on the redemption of the 13% Notes, 10% Notes and 10% Exchange Notes, \$1.2 million used to pay dividend equivalents to our shareholders, \$1.0 million used to satisfy the tax obligations for shares issued under equity-based compensation arrangements and \$0.3 million used to reduce the principal amounts outstanding on capital leases, partially offset by \$1.1 million in proceeds from the sale of common stock.

Net cash used in financing activities was \$191.1 million for the year ended December 31, 2012 as compared to \$38.8 million for the year ended December 31, 2011. Net cash used in financing activities during the year ended December 31, 2012 included \$119.0 million used to repurchase a portion of the 10% Notes, \$55.3 million used to pay special cash dividends to our shareholders, \$13.5 million used to pay fees related to the repurchase of a portion of the 10% Notes, the subsequent November and December note exchanges for a portion of the 10% Notes and the exchange offers and consent solicitation that was consummated in July 2011, \$1.7 million used to reduce the principal amounts outstanding on capital leases and \$1.7 million used to satisfy the tax obligations for shares issued under share-based compensation arrangements, partially offset by \$0.1 million in proceeds from the sale of common stock.

### **Short- and Long-Term Liquidity Considerations and Risks; Contractual Obligations**

As of June 30, 2014, we had \$40.8 million of cash and cash equivalents. We believe that our existing cash and cash equivalents will be sufficient to fund our fixed obligations (such as operating leases), and other cash needs for our operations for at least the next twelve months. As of June 30, 2014, we had \$86.0 million of indebtedness.

HC2 is a holding company and its liquidity needs are primarily for dividend payments on its preferred stock, interest payments on the notes, professional fees (including advisory services, legal and accounting fees), salaries and benefits, office rent, insurance costs and certain support services. HC2's current source of liquidity is its cash, cash equivalents and investments, and distributions from its subsidiaries.

The ability of HC2's subsidiaries to generate sufficient net income and cash flows to make upstream cash distributions is subject to numerous factors, including restrictions contained in such subsidiary's financing agreements, availability of sufficient funds in such subsidiary and the approval of such payment by such subsidiary's board of directors, which must consider various factors, including general economic and business conditions, tax considerations, strategic plans, financial results and condition, expansion plans, any contractual, legal or regulatory restrictions on the payment of dividends, and such other factors such subsidiary's board of directors considers relevant. In addition, one or more subsidiaries may issue, repurchase, retire or refinance, as applicable, their debt or equity securities for a variety of purposes, including in order to in the future, to grow their business, pursue acquisition activities or to manage their liquidity needs. Any such issuance may limit such subsidiary's ability to make upstream cash distributions. HC2's liquidity may also be impacted by the capital needs of its current and future subsidiaries. Such entities may require additional capital to maintain or grow their businesses, or make payments on their indebtedness.

We expect our cash, cash equivalents and investments to continue to be a source of liquidity except to the extent they may be used to fund investments in operating businesses or assets. Depending on a variety of factors, including general state of capital markets, operating needs or acquisition size and terms, HC2 and its subsidiaries may raise additional capital through the issuance of equity, debt, or both. There is no assurance, however, that such capital will be available at that time, in the amounts necessary or on terms satisfactory to HC2. We expect to service any such new additional debt through raising dividends received from our subsidiaries. We may also seek to repurchase, retire or refinance, as applicable, all or a portion of, the notes or our common stock through open market purchases, tender offers, negotiated transactions or otherwise.

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The obligations set forth in the table below reflect the contractual payments of principal and interest that existed as of June 30, 2014 (in thousands):

<b>Contractual Obligations</b>	<b>Total</b>	<b>Less than 1 year</b>	<b>1-3 years</b>	<b>3-5 years</b>	<b>More than 5 years</b>
Operating leases	\$ 8,725	\$ 1,470	\$ 4,368	\$ 1,833	\$ 1,054
Total principal & interest payments	101,071	42,514	54,656	3,901	—
Total contractual obligations	\$ 109,796	\$ 43,984	\$ 59,024	\$ 5,734	\$ 1,054

We have contractual obligations to utilize network facilities from certain carriers with terms greater than one year. We generally do not purchase or commit to purchase quantities in excess of normal usage or amounts that cannot be used within the contract term.

### **Critical Accounting Policies**

To aid in the understanding of our financial reporting, our most critical accounting policies are described below. These policies have the potential to have a more significant impact on our financial statements, either because of the significance of the financial statement item to which they relate, or because they require judgment and estimation due to the uncertainty involved in measuring, at a specific point in time, events which are continuous in nature.

#### **Revenue Recognition and Deferred Revenue**

Net revenue is derived from carrying a mix of business, residential and carrier long-distance traffic, data and Internet traffic. For certain voice services, net revenue is earned based on the number of minutes during a call, and are recorded upon completion of a call. Revenue for a period is calculated from information received through the Company's network switches. Customized software has been designed to track the information from the switch and analyze the call detail records against stored detailed information about revenue rates. This software provides the Company the ability to do a timely and accurate analysis of revenue earned in a period. Separate prepaid services software is used to track additional information related to prepaid service usage such as activation date, monthly usage amounts and expiration date.

Revenue on these prepaid services is recognized as service is provided until expiration, when all unused minutes, which are no longer available to the customers, are recognized as revenue.

Net revenue is also earned on a fixed monthly fee basis for unlimited local and long-distance voice plans and for the provision of data/Internet services (including retail VoIP), hosting, and colocation.

In the United States, we charge customers Federal Universal Service Fund ("USF") fees. We recognize revenue on a gross basis for USF and related fees. We record these fees as revenue when billed.

Net revenue represents gross revenue, net of allowance for doubtful accounts receivable, service credits and service adjustments.

#### **Presentation of Taxes Collected**

The Company reports any tax assessed by a governmental authority that is directly imposed on a revenue-producing transaction between the Company and a customer (including sales, use, value-added and some excise taxes) on a net basis (excluded from revenues).

#### **Cost of Revenue**

Cost of revenue includes network costs that consist of access, transport and termination costs. The majority of the Company's cost of revenue is variable, primarily based upon minutes of use, with transmission and termination costs being the most significant expense. Cost of revenue also includes fees such as Federal USF fees. Such costs are recognized when incurred in connection with the provision of telecommunications services.

## Goodwill and Other Intangible Assets

Under ASC No. 350, "Intangibles—Goodwill and Other" ("ASC 350"), goodwill and indefinite lived intangible assets are not amortized but are reviewed annually for impairment, or more frequently, if impairment indicators arise. Intangible assets that have finite lives are amortized over their estimated useful lives and are subject to the provisions of ASC 360.

Goodwill impairment is tested at least annually (October 1<sup>st</sup>) or when factors indicate potential impairment using a two-step process that begins with an estimation of the fair value of each reporting unit. Step 1 is a screen for potential impairment pursuant to which the estimated fair value of each reporting unit is compared to its carrying value. The Company estimates the fair values of each reporting unit by an estimation of the discounted cash flows of each of the reporting units based on projected earnings in the future (the income approach). If there is a deficiency (the estimated fair value of a reporting unit is less than its carrying value), a Step 2 test is required.

Step 2 measures the amount of impairment loss, if any, by comparing the implied fair value of the reporting unit's goodwill with its carrying amount. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination is determined; i.e., through an allocation of the fair value of a reporting unit to all of the assets and liabilities of that unit as if the reporting unit had been acquired in a business combination. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss shall be recognized in an amount equal to that excess.

The Company also may utilize the provisions of Accounting Standards Update ("ASU") No. 2011-08, "Testing Goodwill for Impairment" ("ASU 2011-08"), which allows the Company to use qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount.

The Company's reporting units in 2011 were Australia, Canada and US/ICS. In May 2012, the Australian reporting unit was sold, and the reporting units were Canada and US/ICS. Subsequent to classifying ICS as a discontinued operation in the second quarter of 2012 and its goodwill being classified as a held for sale asset, the reporting units were Canada and US. Subsequent to the sale of North America Telecom (which included the Canada reporting unit) in the third quarter of 2013, the Company had no goodwill attributable to the remaining US reporting unit. The US reporting unit goodwill was attributable to PTI, the unsold portion of North America Telecom, and was included in assets held for sale. As a result of the decision to cease the sale process of ICS as of December 31, 2013, ICS became a reporting unit and its goodwill was reclassified as a held and used asset.

Estimating the fair value of a reporting unit requires various assumptions including projections of future cash flows, perpetual growth rates and discount rates. The assumptions about future cash flows and growth rates are based on the Company's assessment of a number of factors, including the reporting unit's recent performance against budget, performance in the market that the reporting unit serves, and industry and general economic data from third party sources. Discount rate assumptions are based on an assessment of the risk inherent in those future cash flows. Changes to the underlying businesses could affect the future cash flows, which in turn could affect the fair value of the reporting unit.

Intangible assets not subject to amortization consisted of certain trade names. Such indefinite lived intangible assets are tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test shall consist of a comparison of the fair value of an intangible asset with its carrying amount. If the carrying amount of the intangible asset exceeds its fair value, an impairment loss shall be recognized in an amount equal to the excess.

Intangible assets subject to amortization consisted of certain trade names and customer relationships. These finite lived intangible assets are amortized based on their estimated useful lives. Such assets are subject to the impairment provisions of ASC 360, wherein impairment is recognized and measured only if there are events and circumstances that indicate that the carrying amount may not be recoverable. The carrying amount is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use of the asset group. An impairment loss is recorded if after determining that it is not recoverable, the carrying amount exceeds the fair value of the asset.

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In addition to the foregoing, the Company reviews its goodwill and intangible assets for possible impairment whenever events or circumstances indicate that the carrying amounts of assets may not be recoverable. The factors that the Company considers important, and which could trigger an impairment review, include, but are not limited to: a more than likely than not expectation of selling or disposing all, or a portion, of a reporting unit; a significant decline in the market value of our common stock or debt securities for a sustained period; a material adverse change in economic, financial market, industry or sector trends; a material failure to achieve operating results relative to historical levels or projected future levels; and significant changes in operations or business strategy.

#### **Valuation of Long-lived Assets (Held for Sale)**

In conjunction with the Company's entry into definitive agreements with respect to the sale of North America Telecom, which was substantially completed on July 31, 2013, at December 31, 2013, the Company classified the net assets of the remaining portion of North America Telecom, PTI, as held for sale and is required to measure them at the lower of carrying value or fair value less costs to sell.

Prior to December 31, 2013, ICS was included in held for sale assets. Under ASC 360, when a long-lived asset previously classified as held for sale is reclassified as held and used, the assets and liabilities are measured individually at the lower of the (1) carrying value prior to its held for sale classification, adjusted for any depreciation and amortization that would have been recognized and (2) the fair value as of the date of the decision not to sell. The Company has determined that the carrying value of the current assets and current liabilities of ICS approximate fair value. With respect to the carrying value of the property and equipment of ICS, the Company first recorded depreciation for the period July 1, 2012 through December 31, 2013 and subsequently impaired any assets that had no future benefit. The resulting adjusted carrying value of ICS was lower than its fair value. The goodwill of ICS was tested for impairment under ASC 350 using a Step 1 and Step 2 approach. Because the fair value of ICS exceeded its adjusted carrying value under Step 1, no further analysis was required.

The Company makes significant assumptions and estimates in the process of determining fair value regarding matters that are inherently uncertain, such as estimating future cash flows, discount rates and growth rates. The resulting cash flows are projected over an extended period of time, which subjects those assumptions and estimates to an even larger degree of uncertainty. While the Company believes that its estimates are reasonable, different assumptions could materially affect the valuation of the net assets.

#### **Accounting for Income Taxes**

We recognize deferred tax assets and liabilities for the expected future tax consequences of transactions and events. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement bases and the tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. If necessary, deferred tax assets are reduced by a valuation allowance to an amount that is determined to be more likely than not recoverable. We must make significant estimates and assumptions about future taxable income and future tax consequences when determining the amount of the valuation allowance. The additional guidance provided by ASC No. 740, "Income Taxes" ("ASC 740"), clarifies the accounting for uncertainty in income taxes recognized in the financial statements. Expected outcomes of current or anticipated tax examinations, refund claims and tax-related litigation and estimates regarding additional tax liability (including interest and penalties thereon) or refunds resulting therefrom will be recorded based on the guidance provided by ASC 740 to the extent applicable.

At present, our subsidiaries in the major jurisdictions in which we operate have significant deferred tax assets resulting from tax loss carryforwards. These deferred tax assets are fully offset with valuation allowances. The appropriateness and amount of these valuation allowances are based on our assumptions about the future taxable income of each affiliate or available tax planning strategies. If our assumptions have significantly underestimated future taxable income with respect to a particular affiliate, all or part of the valuation allowance for the affiliate would be reversed and additional income could result.

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**New Accounting Pronouncements**

For a discussion of our "New Accounting Pronouncements," refer to Note 2—"Summary of Significant Accounting Policies" in "Notes to Financial Statements" filed by HC2 August 11, 2014, on Form 10-Q.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF SCHUFF

*You should read the following discussion and analysis of our financial condition and results of operations in conjunction with the other exhibits in this current report on Form 8-K, including "Business", as well as the consolidated financial statements included elsewhere in this current report on Form 8-K, including the notes thereto. The statements in this discussion and analysis regarding industry outlook, our expectations regarding our future performance and our liquidity and capital resources and other non-historical statements in this discussion are forward-looking statements. Our actual results may differ materially from those contained in or implied in any forward-looking statements due to numerous risks and uncertainties, including, but not limited to, the risks and uncertainties described in "Risk Factors."*

### Overview

Schuff International, Inc. is a fully integrated fabricator and erector of structural steel and heavy steel plate. Schuff fabricates and erects structural steel for commercial and industrial construction projects such as high- and low-rise buildings and office complexes, hotels and casinos, convention centers, sports arenas, shopping malls, hospitals, dams, bridges, mines and power plants. Schuff also fabricates trusses and girders as well as specializes in the fabrication and erection of large-diameter water pipe, water storage tanks, pollution control scrubbers, tunnel liners, pressure vessels, strainers, filters, separators and a variety of customized products.

Schuff seeks to differentiate its operations by offering complete, turnkey steel construction services featuring design-build consultation, engineering, detailing, shop fabrication and field erection. By offering an integrated package of steel construction services from a single source, Schuff believes it is able to respond more efficiently to the design and construction challenges associated with large, complex, "fast track" construction projects.

Schuff currently operates primarily in the U.S. Southwest Midwest and Southeast with a concentration in Arizona, Florida, Georgia, Texas, Kansas and California. Schuff also owns 49% of Schuff Hopsa Engineering, Inc. ("SHE"), a Panamanian joint venture providing steel fabrication services in Panama. As provided in the operating agreement, Schuff controls the operations of SHE. Therefore, the assets, liabilities, revenues and expenses of SHE are included in its consolidated financial statements.

Schuff offers its integrated steel construction services primarily to general contractors and engineering firms that specialize in a wide variety of projects, including the following: hotels and casinos, office complexes, hospitals, manufacturing plants, shopping malls and centers, sports stadiums, power plants, restaurants, convention facilities, entertainment complexes, airports, schools, churches and warehouses.

Schuff obtains contracts through competitive bidding or negotiation, which generally are either fixed price, cost-plus or unit cost arrangements. Most of its revenues are derived from projects performed pursuant to fixed price contracts. In bidding or negotiating contracts, Schuff must estimate its costs, including projected increases in labor, material, and service costs. Projects typically last from one to 12 months or more. Projects in backlog at June 29, 2014 had estimated completion dates from one to approximately 20 months in the future.

Schuff considers backlog to be an important indicator of its operating condition because its engineering, detailing, fabrication and erection services are characterized by long lead times for projects and orders. Schuff defines its backlog of contract commitments, letters of intent, notices to proceed and purchase orders as the potential future revenues to be recognized upon performance of contracts and potential contracts. Backlog at June 29, 2014 was \$386.9 million (\$366.9 million under contracts or purchase orders and \$20.0 million under letters of intent). At December 29, 2013, its backlog was \$426.9 million (\$370.1 million under contracts or purchase orders and \$56.8 million under letters of intent). Backlog at December 30, 2012 was \$186.2 million (\$167.3 million under contracts or purchase orders and \$18.9 million under letters of intent).

### Recent Events

On January 4, 2014, Schuff purchased its Phoenix, Arizona facility from a partnership owned by its former majority shareholder and his family and terminated the related lease. The Phoenix facility is approximately 400,000 square feet and includes a fabrication shop and operations office buildings.

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On May 29, 2014, HC2 Holdings, Inc. completed its purchase of 2,500,000 shares of Schuff's common stock from SAS Venture LLC and Scott A. Schuff at a purchase price of \$31.50 per share. The purchase of the shares represented approximately 60% of its outstanding common stock as of the date of purchase. In connection with the ownership change, Schuff paid a total of \$1.2 million to certain executives related to the change of control clause in their employment agreements.

During June and July 2014, Schuff purchased 327,664 shares of its common stock from former executives at a total purchase price of approximately \$8.7 million.

### **Growth Strategies and Outlook**

Schuff's objective is to achieve and maintain a leading position in the geographic regions and project segments that it serves by providing timely, high-quality services to its customers. Schuff is pursuing this objective with a strategy comprised of the following components:

- *Pursue Large, Value-Added Design-Build Projects.* Schuff's unique ability to offer design-build services, a full range of steel construction services and project management capabilities makes it a preferred partner for complex, design-build fabrication projects in the geographic regions it serves. This capability often enables Schuff to bid against fewer competitors in a less traditional, more negotiated selection process on these projects, thereby offering the potential for higher margins while providing overall cost savings and project flexibility and efficiencies to its customers;
- *Expand and Diversify Revenue Base.* Schuff is seeking to expand and diversify its revenue base by leveraging its long-term relationships with national and multi-national construction and engineering firms, national and regional accounts and other customers. Schuff also intends to continue to grow its operations by targeting smaller projects that carry higher margins and less risk of large margin fluctuations. Schuff believes that continuing to diversify its revenue base by completing smaller projects—such as low-rise office buildings, healthcare facilities and other commercial and industrial structures—could reduce the impact of periodic adverse market or economic conditions as well as potential margin slippage that may accompany larger projects;
- *Emphasize Innovative Services.* Schuff focuses its design-build, engineering, detailing, fabrication and erection expertise on larger, more complex projects, where it typically experiences less competition and more advantageous negotiated contract opportunities. Schuff has extensive experience in providing services requiring complex fabrication and erection techniques and other unusual project needs, such as specialized transportation, steel treatment or specialty coating applications. These service capabilities have enabled Schuff to address such design-sensitive projects as stadiums and uniquely designed hotels and casinos; and
- *Diversify Customer and Product Base.* Although Schuff seeks to garner a leading share of the geographic and product markets in which it competes, it also seeks to diversify its construction projects across a wide range of commercial, industrial, and specialty projects, including projects related to the oil & gas and alternative energy industries.

### **Key Factors Affecting Performance**

Schuff's results of operations are affected primarily by (i) the level of commercial and industrial construction in its principal markets; (ii) its ability to win project contracts; (iii) the number and complexity of project changes requested by customers or general contractors; (iv) its success in utilizing its resources at or near full capacity; and (v) its ability to complete contracts on a timely and cost-effective basis. The level of commercial and industrial construction activity is related to several factors, including local, regional and national economic conditions, interest rates, availability of financing, and the supply of existing facilities relative to demand.

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## Performance Indicators

In addition to evaluating Schuff's income from operations, its management team analyzes its performance based on revenue growth, gross profit and gross profit margin and backlog:

- *Revenue.* Schuff's revenue is primarily driven by the level of commercial and industrial construction in its principal markets, its ability to win project contracts and the number and complexity of project changes requested by customers;
- *Gross profit and gross profit margin.* Schuff's gross profit and gross profit as a percentage of revenue, or "gross profit margin" are primarily driven by the percentage of negotiated contracts relative to competitively bid contracts, the number and scope of contract modifications, and improvements in operating efficiencies. Gross profit margins can be positively or negatively affected by large, more complex projects. The competitive environment, construction delays, inefficient or under-utilization of our resources, availability and cost of materials and labor, the timing and performance of work by other contractors, weather conditions and construction site conditions can adversely affect gross profit margins; and
- *Backlog.* Backlog increases as contract commitments, letters of intent, notices to proceed and purchase orders are obtained, decreases as revenues are recognized, and increases or decreases to reflect modifications in the work to be performed under the contract. The timing of contract commitments, letters of intent, notices to proceed and purchase orders, the size of projects and other factors beyond our control can cause significant fluctuation in backlog outstanding at any given date.

## Key Financial Definitions

- *Revenues.* Schuff recognizes revenues using the percentage of completion accounting method. Under this method, revenues are recognized based upon either the ratio of costs incurred to date to the estimated total cost to complete the project. Revenue recognition generally begins when work has commenced. Revenues relating to changes in the scope of a contract are recognized when the work has commenced, Schuff has made an estimate of the amount that will be paid for the change and there is a high degree of probability that the charges will be approved by the customer or general contractor. The cumulative impact of revisions in total cost estimates during the progress of work is reflected in the period in which revisions become known. Estimated losses on contracts are recognized in full when it is determined that a loss will be incurred on a contract;
  - *Cost of revenues.* Schuff's cost of revenues consists of the costs of materials, equipment, direct labor, fringe benefits, and indirect costs associated with project management, fabrication and erection, including rent, depreciation and supervisory labor. Other costs not associated with specific projects are included in general and administrative expenses;
  - *General and administrative expenses.* Schuff's general and administrative expenses include those costs for contract bids, estimating, sales and marketing, facilities and support services; and
  - *Interest expense.* Interest expense consists primarily of interest related to Schuff's borrowings under its line of credit and long-term debt. It also includes amortization related to debt issue costs.
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## Results of Operations

The following table sets forth certain operating data for the periods indicated:

	<i>audited</i>			<i>unaudited</i>	
	YEAR ENDED			SIX MONTHS ENDED	
	DECEMBER 29 2013	DECEMBER 30 2012	JANUARY 1 2012	JUNE 29 2014	JUNE 30 2013
	<i>(in thousands)</i>				
Revenues	\$ 416,142	\$ 427,190	\$ 369,765	\$ 232,149	\$ 187,590
Cost of revenues	355,951	382,508	329,079	192,487	161,348
Gross profit	60,191	44,682	40,686	39,662	26,242
General and administrative expenses	40,555	34,411	34,993	24,147	19,167
Operating income	19,636	10,271	5,693	15,515	7,075
Interest expense	(3,669)	(5,804)	(1,130)	(1,127)	(2,093)
Other (expense) income	(697)	828	(129)	1,122	130
Income before income tax provision	15,270	5,295	4,434	15,510	5,112
Income tax provision	(2,650)	(1,660)	(2,016)	(5,539)	(1,975)
Income before non-controlling interest	12,620	3,635	2,419	9,971	3,137
Non-controlling interest	88	(136)	(43)	(107)	(58)
Income from continuing operations	12,708	3,499	2,376	9,864	3,079
(Loss) income from discontinued operations, net of tax	(381)	(1,326)	(7,408)	(15)	67
Net income (loss)	<u>\$ 12,327</u>	<u>\$ 2,173</u>	<u>\$ (5,032)</u>	<u>\$ 9,849</u>	<u>\$ 3,146</u>

### **Six Months Ended June 29, 2014 Compared to Six Months Ended June 30, 2013**

#### **Revenues:**

Revenues increased by 23.8% to \$232.1 million in the six months ended June 29, 2014, from \$187.6 million in the same period in the prior fiscal year. The increase in revenues was primarily a result of the ramp-up of major projects located in the Midwest and Gulf Coast regions of the United States. The increase in Midwest and Gulf Coast regions was mostly due to increased work in the industrial market, including oil & gas projects.

#### **Gross profit:**

Gross profit increased 51.1% to \$39.7 million in the six months ended June 29, 2014, from \$26.2 million in the same period in the prior fiscal year. The increase in gross profit was primarily a result of several favorable settlements on projects in the Southwest and Gulf Coast regions. As a percentage of revenues, gross profit increased to 17.1% in 2014 from 14.0% in 2013, primarily as a result of increased revenues generated from higher-margin projects.

#### **General and administrative:**

General and administrative expenses increased 26.0% to \$24.1 million in the six months ended June 29, 2014, from \$19.2 million in the same period in the prior fiscal year. General and administrative costs increased due to additional employee-related costs to support the increased revenues, higher bonus expense due to Schuff's improved financial performance, \$1.2 million paid to certain executives related to the change of control clause in their employment agreements and \$0.9 million paid to a former executive under his employment agreement. Schuff continues to make a concerted effort to control costs while continuing to invest in business development and information technology to increase profitability. General and administrative expenses as a percentage of revenues were 10.4% and 10.2% in 2014 and 2013, respectively.

**Interest expense:**

Interest expense was \$1.1 million in the six months ended June 29, 2014 compared to \$2.1 million in the same period in the prior fiscal year. The decrease in interest expense was primarily attributable to the reduction in long-term debt during late 2013.

**Other income:**

Other income was \$1.1 million in the six months ended June 29, 2014 compared to \$0.1 million in the same period in the prior fiscal year. The increase in other income was primarily attributable to gains recognized on the sale of a minority interest investment and the proceeds of a cash-surrender value life insurance policy in excess of the amount recorded.

**Income tax provision:**

Income tax provision for the six months ended June 29, 2014 was \$5.5 million, which represents an effective tax rate of approximately 35.7%. Schuff's tax rate was lower than the statutory rate in 2014 due to state income taxes of \$0.9 million offset by the recognition of an approximately \$1.3 million of federal manufacturing deduction. Income tax provision for the six months ended June 30, 2013 was \$2.0 million, which represents an effective tax rate of approximately 38.6%. Schuff's tax rate in 2013 included state income taxes of \$0.2 million offset by the recognition of an approximately \$0.5 million federal manufacturing deduction.

**Net income:**

As a result of net changes in the foregoing items, net income was \$9.8 million in the six months ended June 29, 2014, compared to net income of \$3.1 million in the same period in the prior fiscal year.

**Backlog:**

Backlog increased 41.5% to \$386.9 million (\$366.9 million under contracts or purchase orders and \$20.0 million under letters of intent) at June 29, 2014 compared to \$273.4 million (\$238.5 million under contracts or purchase orders and \$34.9 million under letters of intent) at June 30, 2013 primarily due to the award of several large projects in the Pacific and Gulf Coast regions in the commercial and industrial markets during the twelve months ended June 29, 2014.

***Year Ended December 29, 2013 Compared to Year Ended December 30, 2012*****Revenue:**

Revenues decreased by 2.6% to \$416.1 million in 2013, from \$427.2 million in 2012. The decrease in revenues was primarily a result of lower revenue from the Pacific and Midwest regions.

**Gross profit:**

Gross profit increased 34.7% to \$60.2 million in 2013, from \$44.7 million in 2012. The increase in gross profit was primarily the result of increased revenues generated from higher-margin projects. As a percentage of revenues, gross profit increased to 14.5% in 2013 from 10.5% in 2012, largely due to better contract performance throughout 2013 on our entire range of project types.

**General and administrative:**

General and administrative expenses increased 17.9% to \$40.6 million in 2013, from \$34.4 million in 2012. General and administrative costs increased as a result of additional employee- and travel-related costs to support the increased backlog and higher bonus expense due to Schuff's improved financial performance. Schuff continues to make a concerted effort to control costs while continuing to invest in business development and information technology to increase profitability. General and administrative expenses as a percentage of revenues were 9.7% and 8.1% in 2013 and 2012, respectively.

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**Interest expense:**

Interest expense was \$3.7 million in 2013 compared to \$5.8 million in 2012. The decrease in interest expense was primarily attributable to the reduction in long-term debt throughout 2013 and lower interest financing on the remaining balance of the long-term debt.

**Other expense and income:**

Other expense was \$0.7 million in 2013 compared to income of \$0.8 million in 2012. The change in other expense and income was primarily attributable to the write-off of debt issue costs associated with the refinanced long-term debt.

**Income tax provision:**

Income tax provision for 2013 was \$2.7 million, which represents an effective tax rate of approximately 17.4%. Schuff's tax rate was significantly lower than the statutory rate in 2013 due to the recognition of an uncertain tax benefit resulting from a lapse in the statute of limitations. Income tax provision for 2012 was \$1.7 million, which represents an effective tax rate of approximately 31.4%. Schuff's tax rate was lower than the statutory rate in 2012 due to the combination of tax benefits that exceeded tax expense.

**Net income:**

As a result of net changes in the foregoing items, net income was \$12.3 million in 2013, compared to net income of \$2.2 million in 2012.

**Backlog:**

Backlog increased 129.2% to \$426.9 million (\$370.1 million under contracts or purchase orders and \$56.8 million under letters of intent) at December 29, 2013 compared to \$186.2 million (\$167.3 million under contracts or purchase orders and \$18.9 million under letters of intent) at December 30, 2012. The increase was primarily due to the award of several large projects in the Pacific, Southwest, and Gulf Coast regions in the commercial and industrial markets during 2013.

***Year Ended December 30, 2012 Compared to Year Ended January 1, 2012*****Revenue:**

Revenues increased by 15.5% to \$427.2 million in 2012, from \$369.8 million in 2011. The increase in revenues was primarily a result of the ramp-up of several large projects.

**Gross profit:**

Gross profit increased 9.8% to \$44.7 million in 2012, from \$40.7 million in 2011. The increase in gross profit was primarily a result of the increase in revenue from projects in the Pacific and Southwest regions. As a percentage of revenues, gross profit decreased to 10.5% in 2012 from 11.0% in 2011, primarily as a result of higher costs on a large project in the Midwest region.

**General and administrative:**

General and administrative expenses decreased 1.7% to \$34.4 million in 2012, from \$35.0 million in 2011. General and administrative costs decreased primarily due to lower bonus expense and other indirect costs. General and administrative expenses as a percentage of revenues were 8.1% and 9.5% in 2012 and 2011, respectively.

**Interest expense:**

Interest expense was \$5.8 million in 2012 compared to \$1.1 million in 2011. The increase in interest expense was primarily attributable to interest expense related to the \$30.0 million term loan obtained in December 2011.

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**Other income and expense:**

Other income was \$0.8 million in 2012 compared to other expense of \$0.1 million in 2011. The change in other income and expense was primarily attributable to a gain recognized on the disposal of a large piece of equipment in 2012.

**Income tax provision:**

Income tax provision for 2012 was \$1.7 million, which represents an effective tax rate of approximately 31.4%. Schuff's tax rate was lower than the statutory rate in 2012 due to the combination of tax benefits that exceeded tax expense. Income tax provision for 2011 was \$2.0 million, which represents an effective tax rate of approximately 45.5%. Schuff's tax rate was higher than the statutory rate in 2011 due to the combination of excess tax expense over tax benefits.

**Net income:**

As a result of net changes in the foregoing items, net income was \$2.2 million in 2012, compared to a net loss of \$5.0 million in 2011.

**Backlog:**

Backlog decreased 26.3% to \$186.2 million (\$167.3 million under contracts or purchase orders and \$18.9 million under letters of intent) at December 30, 2012 compared to \$252.9 million (\$192.2 million under contracts or purchase orders and \$60.7 million under letters of intent) at January 1, 2012 primarily due to the decrease in the number of large projects in the Midwest, Southeast, and Southwest regions.

### Liquidity and Capital Resources

Schuff's short-term cash needs are primarily for working capital to support operations including receivables, inventories, and other costs incurred in performing its contracts. Cash flow from operations and borrowing availability under the Schuff Facility (as defined below under the heading "—Long-term Debt and Credit Facility") are the principal sources of cash used to fund its operating expenses, interest payments on debt, and capital expenditures. Schuff attempts to structure the payment arrangements under its contracts to match costs incurred under the project. To the extent Schuff is able to bill in advance of costs incurred, it generates working capital through billings in excess of costs and recognized earnings on uncompleted contracts. To the extent Schuff is not able to bill in advance of costs, Schuff relies on its credit facilities to meet its working capital needs. Schuff believes that its existing borrowing availability together with cash from operations will be adequate to meet all funding requirements for its operating expenses, interest payments on debt and capital expenditures for the foreseeable future.

For 2013, capital expenditures were \$10.0 million. Capital expenditures for 2013 included \$2.5 million for machinery and equipment for various shop locations and \$4.2 million for a corporate jet, which was subsequently sold in July 2014. During 2013, Schuff's capital outlays were higher than historical amounts due to the purchase of the corporate jet. Schuff currently expects unfinanced capital expenditures for 2014 to be approximately \$12.0 million, of which approximately \$6.0 million is for the purchase of its Phoenix shop facility and \$2.6 million is for the purchase of machinery and equipment for various shop locations. Actual amounts could differ materially because of operating needs, growth needs, regulatory changes, covenants in its debt arrangements, other expenses, or other factors.

Debt service consists of principal and interest payments on the outstanding balance of Schuff's Real Estate Term Advance and the Schuff Facility. Schuff has no major debt maturities prior to April 30, 2019, when the Schuff Facility matures and the final balloon payment of \$1.9 million is due on its Real Estate Term Advance.

Schuff's primary sources of liquidity for operations are cash flow from operations and borrowing availability under the Schuff Facility. At June 29, 2014, Schuff had \$35.4 million of borrowing availability under the Schuff Facility. Schuff believes that, based on current operations and anticipated growth, its cash flow from operations, together with other available sources of liquidity, will be sufficient to fund anticipated capital expenditures, operating expenses and its other anticipated liquidity needs for the next twelve months. Anticipated debt maturities in 2019, the acquisition of other businesses or other events that it does not foresee may require Schuff to seek alternative financing, such as restructuring or refinancing its long-term debt, selling assets or operations or selling additional debt or equity securities. If these

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alternatives were not available in a timely manner or on satisfactory terms or were not permitted under any of its debt agreements and Schuff default on its obligations, its debt could be accelerated and its assets might not be sufficient to repay in full all of its obligations.

### Cash Flows

The following summarizes our cash flows for 2013, 2012 and 2011 and the six months ended June 29, 2014 and June 30, 2013, as reported in its consolidated statements of cash flows in the accompanying consolidated financial statements:

	FOR THE YEAR ENDED			FOR THE SIX MONTHS ENDED	
	DECEMBER 29 2013	DECEMBER 30 2012	JANUARY 1 2012	JUNE 29 2014	JUNE 30 2013
Operating activities	\$ 6,693	\$ 35,502	\$ (1,966)	\$ 9,623	\$ 9,883
Investing activities	(9,920)	(3,629)	(7,488)	(7,955)	(7,254)
Financing activities	(17,062)	(28,076)	(29,386)	(1,700)	(8,387)

(in thousands)

Schuff generated \$9.6 million and \$9.9 million in net cash provided by operating activities in the six months ended June 29, 2014 and June 30, 2013, respectively. Schuff generated \$6.7 million and \$35.5 million and used \$2.0 million in net cash from operating activities in 2013, 2012 and 2011, respectively. The increase in cash provided by operating activities in 2012, compared to 2011, was primarily due to the decrease in working capital from the previous year. The decrease in working capital was primarily driven by collections of outstanding receivables and the ability to bill in excess of costs incurred on open projects. The decrease in cash provided by operating activities in 2013, as compared to 2012, was primarily due to the increase in working capital from the previous year offset by Schuff's large net income. Working capital increased because of the increase in expenditures required to support the increased backlog. Schuff will continue its efforts to collect outstanding retention receivables on completed projects, effectively manage its inventory levels and keep its required overhead increases to a minimum.

Net cash used in investing activities in the six months ended June 29, 2014 and June 30, 2013 was \$8.0 million and \$7.3 million, respectively. Net cash used in investing activities in 2013, 2012 and 2011 was \$9.9 million, \$3.6 million and \$7.5 million, respectively. Cash used in investing activities is primarily for capital expenditures in each of the periods presented.

Net cash used in financing activities was \$1.7 million and \$8.4 million in the six months ended June 29, 2014 and June 30, 2013, respectively. Net cash used in financing activities was \$17.1 million, \$28.1 million and \$29.4 million in 2013, 2012 and 2011, respectively. Cash used in financing activities in 2013 consisted primarily of paying the remaining balance of previous financing offset by issuance of new long-term debt and credit facility borrowings. Cash used in financing activities in 2012 consisted primarily of net credit facility borrowings and principal payments on long-term debt. Cash used in financing activities in 2011 consisted primarily of the cash portion of the purchase of stock from our majority shareholders, principal payments on long-term debt and payment of costs associated with the debt issued to fund the purchase of stock from Schuff's majority shareholders.

## Contractual Obligations

The following table summarizes Schuff's long-term contractual commitments at June 29, 2014 and the effect such obligations are expected to have on its liquidity and cash flow in future periods (dollars in thousands):

	TOTAL	PAYMENTS DUE FOR FISCAL YEAR					THEREAFTER
		REMAINING 2014	2015	2016	2017	2018	
Total debt (1)	\$ 15,637	\$ 11,002	\$ 625	\$ 625	\$ 625	\$ 625	\$ 2,135
Scheduled interest payment obligations (2)	709	103	183	158	131	105	29
Operating lease obligations	1,566	263	528	440	222	113	—
Total contractual obligations	\$ 17,912	\$ 11,368	\$ 1,336	\$ 1,223	\$ 978	\$ 843	\$ 2,164

(1) Total debt obligations reflect the changes made in the May 6, 2014 amendment to the Schuff Facility, discussed in further detail below.

(2) Scheduled interest payment obligations related to long-term debt were calculated using the interest rates applicable at June 29, 2014.

## Long-term Debt and Credit Facility

Schuff has a Credit and Security Agreement (the "Schuff Facility") with Wells Fargo Credit, Inc (Wells Fargo). On May 6, 2014, Schuff amended its Credit Facility, pursuant to which Wells Fargo extended the maturity date of the Credit Facility to April 30, 2019, lowered the interest rate charged in connection with borrowings under the line of credit and allowed for the issuance of a note payable totaling \$5.0 million, collateralized by its real estate ("Real Estate Term Advance"). The Real Estate Term Advance has a five-year amortization period requiring monthly principal payments and a final balloon payment at maturity. The Real Estate Term Advance has a floating interest rate of LIBOR plus 4.0% and requires monthly interest payments. The proceeds of the Real Estate Term Advance, in conjunction with cash generated from operations and borrowings under the Credit Facility, were used to pay the remaining balance of the previous real estate term loan issued under the Schuff Facility. On September 26, 2014, and October 21, 2014, Schuff amended the Schuff Facility to allow for a new \$15.0 million term loan to be used for equipment financing and working capital requirements related to a recent project award. The new term loan has a five-year amortization period with terms substantially similar to the Real Estate Term Advance. The October 21, 2014 amendment also reduces the restrictions on dividend payments to shareholders. The amendment allows dividends to be paid to Schuff shareholders up to four times a year, subject to the following conditions: (a) the consent of Wells Fargo, which is the Schuff Facility lender (which consent shall not be unreasonably withheld); (b) maintenance of a fixed charge coverage ratio of 1.20 to 1; (c) a minimum excess availability under the Schuff Facility of \$10 million before and after the payment of a dividend and (d) Schuff is not in default under the Schuff Facility at the time of the dividend payment.

Schuff also has a \$3.5 million Line of Credit Agreement ("International LOC") with Banco General, S.A. in Panama.

At June 29, 2014, Schuff had \$10.7 million of borrowings under its Credit Facility. There was approximately \$35.4 million available under the Schuff Facility at June 29, 2014. At June 29, 2014, Schuff had no borrowings and no outstanding letters of credit issued under its International LOC. There was \$3.5 million available under its International LOC at June 29, 2014.

The Schuff Facility is secured by a first priority, perfected security interest in all of Schuff's assets, excluding the real estate, and its present and future subsidiaries and a second priority, perfected security interest in all of its real estate. The security agreements pursuant to which Schuff's assets are pledged prohibit any further pledge of such assets without the written consent of the bank. The Schuff Facility has a floating interest rate of LIBOR plus 3.00% (3.23% at June 29, 2014) and requires monthly interest payments. The Schuff Facility contains various restrictive covenants. At June 29, 2014, Schuff was in compliance with these covenants or had received waivers so there was no event of default.

The International LOC is secured by a first priority, perfected security interest in Schuff Hopsa Engineering's ("SHE") property and plant. The interest rate is 5.25% plus 1% of the special interest compensation fund ("FECl"). The International LOC contains covenants that, among other things, limit SHE's ability to incur additional indebtedness, change its business, merge, consolidate or dissolve and sell, lease, exchange or otherwise dispose of its assets, without prior written notice.

## **Standby Letters of Credit**

At June 29, 2014, Schuff had \$3.9 million of outstanding letters of credit issued under the Schuff Facility, which were for the benefit of its workers' compensation insurance carrier. Schuff's workers' compensation insurance carrier requires standby letters of credit to be issued as collateral on all of its outstanding indemnity cases. The amount of collateral required is determined each year and is provided to the carrier for outstanding indemnity claims not greater than 54 months old. The prior years' levels of required collateral can be adjusted each year based upon the costs incurred and settlements reached on the outstanding indemnity cases.

## **Off-Balance Sheet Arrangements**

Schuff's off-balance sheet arrangements at June 29, 2014 included letters of credit of \$3.9 million and performance bonds of \$48.5 million. The letters of credit are more fully discussed above and in the Notes to the Consolidated Financial Statements. Schuff's contract arrangements with customers sometimes require Schuff to provide performance bonds to partially secure its obligations under its contracts. Bonding requirements typically arise in connection with public works projects and sometimes with respect to certain private contracts. Schuff's performance bonds are obtained through surety companies and typically cover the entire project price.

## **Critical Accounting Policies**

Schuff's discussion and analysis of its financial condition and results of operations are based upon its consolidated financial statements, which have been prepared in conformity with U.S. generally accepted accounting principles ("GAAP"). In preparing these financial statements, Schuff is required to make certain estimates, judgments and assumptions. These estimates, judgments and assumptions affect the reported amounts of its assets and liabilities, including the disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of its revenues and expenses during the periods presented. Schuff evaluates these estimates and assumptions on an ongoing basis. Schuff bases its estimates and assumptions on historical experience and on various other factors that Schuff believes to be reasonable at the time the estimates and assumptions are made. However, future events and their effects cannot be predicted with absolute certainty. Therefore, the determination of estimates requires the exercise of judgment. Actual results inevitably will differ from these estimates and assumptions under different circumstances or conditions, and such differences may be material to the financial statements. Schuff believes the following critical accounting policies affect its more significant judgments and estimates used in the preparation of its consolidated financial statements.

### **Principles of Consolidation**

The accompanying consolidated financial statements include the accounts of Schuff International, Inc. and all wholly-owned subsidiaries. The consolidated financial statements also include the assets, liabilities, revenues and expenses of its controlled subsidiary. All material intercompany accounts and transactions have been eliminated in consolidation.

In accordance with accounting principles generally accepted in the United States, references in this report to its earnings per share, net income and stockholders' equity attributable to its common shareholders do not include amounts attributable to non-controlling interests.

### **Revenue and Cost Recognition**

Schuff performs its services primarily under fixed-price contracts and recognize revenues and costs from construction projects using the percentage of completion method. Under this method, revenue is recognized based upon either the ratio of the costs incurred to date to the total estimated costs to complete the project or the ratio of tons fabricated to date to total estimated tons. Revenue recognition begins when work has commenced. Costs include all direct material and labor costs related to contract performance, subcontractor costs, indirect labor, and fabrication plant overhead costs, which are charged to contract costs as incurred. Revenues relating to changes in the scope of a contract are recognized when the work has commenced, Schuff has made an estimate of the amount that is probable of being paid for the change and there is a high degree of probability that the charges will be approved by the customer or general contractor.

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Revisions in estimates during the course of contract work are reflected in the accounting period in which the facts requiring the revision become known. Provisions for estimated losses on uncompleted contracts are made in the period a loss on a contract becomes determinable.

### **Inventories**

Inventories, primarily steel components, are stated at the lower of cost or market under the first-in, first-out method.

### **Property, Plant and Equipment**

Property, plant and equipment are stated at cost. Depreciation is determined on a straight-line basis over the estimated useful lives ranging from 5 to 40 years for buildings and improvements and 3 to 15 years for machinery and equipment. Leasehold improvements are amortized over the lives of the leases or estimated useful lives of the assets, whichever is shorter. When assets are sold or otherwise retired, the cost and accumulated depreciation are removed from the books and the resulting gain or loss is included in operating results. The Company periodically evaluates the carrying value of its property, plant, and equipment based upon the estimated cash flows to be generated by the related assets. If impairment is indicated, a loss is recognized. No impairment losses were recorded in 2013, 2012 and 2011.

### **Goodwill Impairment**

Schuff assesses the impairment of goodwill on an annual basis. When it determines that the carrying value of goodwill may not be recoverable, Schuff measures any impairment based on a projected discounted cash flow method using a discount rate determined by its management to be commensurate with the risk inherent in its current business model. Schuff completed its annual assessment of goodwill as of October 31, 2013. Its assessment determined that the fair value exceeded the carrying value of the assets.

### **Income Taxes**

As part of the process of preparing its consolidated financial statements, Schuff is required to estimate its income taxes in each of the jurisdictions in which it operates. This process involves estimating its actual current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within Schuff's consolidated balance sheet. Schuff must then assess the likelihood that its deferred tax assets will be recovered from future taxable income and to the extent Schuff believes that recovery is not likely, it must establish a valuation allowance.

### **Legal Contingencies**

Schuff is currently involved in certain legal proceedings. Schuff does not believe these proceedings will have a material adverse effect on its consolidated financial position or results of operations. Because of the uncertainties related to both the amount and range of loss on the remaining pending litigation, management is unable to make a reasonable estimate of the liability that could result from an unfavorable outcome. As additional information becomes available, Schuff will assess the potential liability related to its pending litigation and revise its estimates as necessary. Such revisions in its estimates of the potential liability could materially impact its financial position or results of operations.

### **Recently Issued and Adopted Accounting Standards**

In 2013, the Financial Accounting Standards Board ("FASB") issued new accounting guidance clarifying the accounting for the release of a cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business within a foreign entity. The new standard is effective for fiscal years beginning on or after December 15, 2013. The new standard was adopted on December 30, 2013. The adoption did not have a significant impact on Schuff's financial position, results of operations, or cash flows.

In 2013, the FASB issued new accounting guidance clarifying the accounting for obligations resulting from joint and several liability arrangements for which the total amount under the arrangement is fixed at the reporting date. The new

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standard is effective for fiscal years beginning on or after December 15, 2013. The new standard was adopted on December 30, 2013. The adoption did not have a significant impact on Schuff's financial position, results of operations, or cash flows.

In 2013, the FASB issued a new accounting standard that will require the presentation of certain unrecognized tax benefits as reductions to deferred tax assets rather than as liabilities in the Consolidated Balance Sheets when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The new standard requires adoption on a prospective basis in the first quarter of 2015; however, early adoption is permitted. Schuff does not anticipate that this adoption will have a significant impact on its financial position, results of operations, or cash flows.

In May 2014, the FASB issued a new accounting standard based on the principle that revenue is recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This new standard also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers, including significant judgments and changes in judgments. This new standard is effective for reporting periods beginning after December 15, 2016, and permits the use of either full retrospective or modified retrospective methods of adoption. Early adoption is not permitted. Schuff is currently evaluating the method of adoption and the impact that this guidance will have on its financial statements and disclosures.

## **Quantitative and Qualitative Disclosures About Market Risk**

### **Derivative Financial Instruments, Other Financial Instruments, and Derivative Commodity Instruments**

During 2013, Schuff did not participate in any derivative financial instruments, or other financial or derivative commodity instruments.

### **Interest Rate Risk**

Schuff has interest rate risk with respect to its long-term debt and Schuff Facility. As of June 29, 2014, all of its long-term debt and the Schuff Facility was variable rate debt. A change in interest rates impacts the interest incurred and cash flows but does not generally impact the fair value of the instrument.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF GLOBAL MARINE

*You should read the following discussion and analysis of Global Marine's financial condition and results of operation in conjunction with the other sections of this current report on Form 8-K, including "Business", as well as the audited and unaudited consolidated financial statements included elsewhere in this current report on Form 8-K, including the notes thereto. References to "Global Marine," "GMSL," "we," "us" and "our" in this "Management's Discussion and Analysis of Financial Condition and Results of Operations of Global Marine" refer to Bridgehouse Marine Limited, the parent and holding company of Global Marine Systems Limited, and its consolidated subsidiaries. The statements in this discussion and analysis regarding industry outlook, our expectations regarding future performance and our liquidity and capital resources and other non-historical statements in this discussion are forward-looking statements. Our actual results may differ materially from those contained in or implied in any forward-looking statements due to numerous risks and uncertainties, including, but not limited to, the risks and uncertainties described in "Risk Factors."*

### Introduction and Overview of Operations

Global Marine is a global offshore engineering company focused on specialist subsea services across three market sectors, namely telecommunications, oil & gas and offshore power.

Over the last 30 years, GMSL believes it has installed approximately 300,000 kilometers of cable representing almost a quarter of all the fiber optic cable on the seabed today.

Bridgehouse Marine acquired GMSL from Global Crossing in 2004. GMSL (then named C&W Marine) was acquired from Cable & Wireless by Global Crossing in 1998 as part of its strategy to become the global leader in the subsea cable industry. In 1999, Global Crossing required GMSL to order several new cable installation and maintenance vessels to meet bullish demand forecasts and provided a large loan to allow these dedicated vessels to be procured; the arrival of these vessels coincided with a steep cyclical downturn, the bankruptcy of Global Crossing and led to the underutilization of GMSL's fleet and subsequent financial distress.

During the years immediately preceeding 2007, Bridgehouse Marine focused on restructuring the business through a reduction of headcount, a focus on their core activities, strengthening of the joint ventures and the elimination of loss making contracts thereby restoring overall profitability.

From 2007 onwards, Bridgehouse Marine's strategy was to ensure that GMSL was best positioned to meet changes in the market and to benefit from emerging opportunities in areas such as oil & gas and offshore power. S.B. Submarine Systems Company, our joint venture with China Telecom, was repositioned on the international Asian market outside China and grew its revenues derived from the oil & gas business to approximately 38% of its total revenue. A joint venture with Huawei was formed in 2008 in order to create a turnkey subsea systems solutions provider alongside TE SubCom, HMN, Alcatel-Lucent and NEC and to provide an additional channel to market for GMSL in the integrated systems sector. Global Marine's former subsidiary Global Marine Energy ("GME") was created in 2011 to focus on the growing offshore power sector.

Today, GMSL is positioned as a leading global independent market leader in subsea cable installation and maintenance services. The company has a strong financial position, has delivered substantial profit growth during recent years, and is highly cash generative. It has started a new phase of growth through transferring its capabilities to the rapidly expanding demand in the oil & gas and offshore power sectors while retaining its leading position in telecommunications.

GMSL believes it has installed more offshore wind inter-array cables than any other provider and continues to be one of the leading installers of cables in the offshore power sector. GME was established in 2011 as the vehicle for GMSL's significant offshore wind activities and was subsequently sold to Prysmian UK Group Limited ("Prysmian") in November 2012 in anticipation of a temporary downturn in the offshore power market and the onerous contracting regime present at the time. This sale resulted in GMSL entering into a non-compete agreement with Prysmian until November 2015.

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## Offshore Power Track Record

GMSL is one of the leading installers of cables in relation to supporting the growth in the offshore power market and GMSL's track record in these types of projects includes the following:

- Experimental UK farm, Blythe, for Shell
- London Array Ltd: inter-array cables for London Array project
- RWE: 4 export cables for Gwynt y Mor project
- C-Power: inter-array cables for Thornton Bank project (Belgium)
- Dong Energy: Inter-array cables for Horns Rev project, Denmark (three phases)
- Vattenfall: 3 export cables for Kentish Flats project
- EON/Shell: power and fiber optic cables for Blythe project
- GT1: largest German wind farm to date

Following the sale of GME in November 2012 and through June 2014, GMSL continued to install offshore power cables on behalf of Prysmian with chartered vessels.

## Divestment of GME

GME was sold to Prysmian for approximately £42 million in November 2012. GMSL decided to sell the GME business as a result of the anticipation of delays in UK wind farm projects as a result of uncertainty over HMG policies on feed-in tariffs; significant risk to substantial capital invested in the Cable Enterprise vessel; and an immature contracting structure resulting in misalignment of risk and return between EPC contracts and installation companies. The sale included the GME legal entity, the Cable Enterprise vessel, the contract portfolio, and the services of the associated shore-based staff. Selected retained employees ensure that core capabilities and experience in the offshore power sector were maintained by GMSL.

The sale of GME transitioned Prysmian to be a significant customer primarily through the long term charter contracts of the Innovator and Sovereign vessels until mid-2014. The vessels were primarily used to undertake the installation of power cables in offshore wind farms. On reviewing the closing accounts in December 2012, Prysmian successfully submitted a claim under the terms of the stock purchase agreement for a reduction in the overall purchase price and this was concluded in March 2014. The working relationship with Prysmian is sound and further charters of vessels in 2015 and 2016 are being discussed. As part of the GME sale, GMSL entered into a three year non-compete in the offshore power sector until November 2015. GMSL's strategy is to re-enter the offshore power cable market thereafter.

## Foreign Currency

Foreign currency can impact Bridgehouse Marine's financial results. During the year ended December 31, 2013, approximately 79% of Bridgehouse Marine's net revenue from continuing operations was derived from sales and operations outside the U.K. The reporting currency for Bridgehouse Marine's consolidated financial statements is the GBP. The local currency of each country in which Bridgehouse Marine operates is the functional currency for each of its respective entities operating in that country. In the future, Bridgehouse Marine expects to continue to derive a portion of its net revenue and incur a portion of its operating costs from outside the U.K., and therefore changes in exchange rates may continue to have a significant, and potentially adverse, effect on its results of operations. Bridgehouse Marine's risk of loss regarding foreign currency exchange rate risk is caused primarily by fluctuations in the USD/GBP exchange rate. Due to a percentage of its revenue derived outside of the U.K. and in the U.S., material changes in the USD relative to the GBP could have an adverse impact on its future results of operations.

Bridgehouse Marine is exposed to financial statement gains and losses as a result of translating the operating results and financial position of its international subsidiaries. Bridgehouse Marine translates the local currency statements of operations of its foreign subsidiaries into GBP using the average exchange rate during the reporting period in respect of

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earnings and the closing month end rate in relation to assets and liabilities. Changes in foreign exchange rates affect the reported profits and losses and cash flows of its international subsidiaries and may distort comparisons from year to year.

For the year ended December 31, 2013, as compared to the year ended December 31, 2012, the USD was stronger on average as compared to the GBP. For the year ended December 31, 2012, as compared to the year ended December 31, 2011, the USD was also stronger on average as compared to the GBP.

## **Critical Accounting Policies**

### **Basis of accounting**

The financial statements are prepared on the going concern basis under the historical cost convention, as modified by the revaluation of cable-ships and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. The principal accounting policies, which have been applied consistently throughout the year, are set out below.

### **Basis of preparation**

Bridgehouse Marine's financial statements consolidate the financial statements of Bridgehouse Marine and its subsidiary undertakings, joint ventures and associate undertakings (the "Group") for the year ended December 31, 2013. Subsidiary undertakings are entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Associate undertakings are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed. Bridgehouse Marine's subsidiary undertakings, associated undertakings and joint ventures (together "the Group companies") have adopted uniform accounting policies. Acquisitions are accounted for under the acquisition method. All profits or losses on intra Group transactions have been eliminated.

The Group's associate undertakings and joint ventures are accounted for in accordance with Financial Reporting Standard No 9 'associates and joint ventures', with associates included using the equity method of consolidation and joint ventures included using the gross equity method of consolidation. The consolidated profit and loss account includes the Group's share of associates' and joint ventures' profits less losses while the Group's share of the net assets of the associates and joint ventures is shown in the consolidated balance sheet. For entities which have non co-terminus year ends, results are consolidated on the basis of management accounts information.

### **Goodwill**

Goodwill arising on an acquisition of a trade/subsidiary undertaking is the difference between the fair value of the consideration paid and the fair value of the assets and liabilities acquired.

Positive goodwill is capitalized and amortized through the profit and loss account over the directors' estimate of its useful economic life. Impairment tests of the carrying of goodwill are undertaken:

- at the end of the full financial year following acquisition,
- in other years if events or changes in circumstances indicate that the carrying value may not be recoverable.

Where the fair value of the assets and liabilities acquired exceeds the fair value of the consideration, the difference is treated as negative goodwill, and is capitalized and amortized through the profit and loss account over the period over which the non-monetary assets acquired are consumed. In the case of fixed assets this is the period over which they are depreciated.

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## **Tangible fixed assets**

Tangible fixed assets with the exception of cable-ships are stated at cost, net of depreciation and any provision for impairment. Cable-ships are stated at valuation net of depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Cost includes finance costs incurred prior to the asset being available for use.

Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost less estimated residual value, of each asset on a straight line basis over its estimated useful life as follows:

Cable-ships and submersibles –	up to 35 years
Plant and Motor vehicles –	3 to 20 years
Leasehold land and buildings –	over the period of the lease

Plant includes equipment on the cable-ships that is portable and can be moved around the fleet. Plant also includes computer equipment. The expected useful lives of the assets of the business are reassessed periodically.

Assets under construction are not depreciated until they are complete and available for use; when they are reclassified to an asset class and subject to the depreciation rates set out above. Financial Reporting Standard 15 requires fixed assets which are carried at re-valued amounts to be shown at their current value at the balance sheet date. To achieve this cable-ships are subject to a full external valuation every five years with an interim valuation carried out in the third year of this cycle. At the end of 2012 a full valuation was undertaken on the cable-ships.

An impairment provision is made whenever there is an indication that net book value is greater than the valuation. Impairment losses are charged to the revaluation reserve to the extent that a previous gain has been reversed and thereafter to the profit and loss account as incurred. In the event of a subsequent upwards revaluation of a previously impaired asset, the provision is reversed through operating expenses in so far as it was originally charged to the profit and loss account.

## **Revaluation reserve**

Any surpluses on revaluation of the cable-ships are recognised in the revaluation reserve, except where they reverse previously charged impairment losses, in which case they are recorded in the profit and loss account. Depreciation relating to the re-valued part of the asset is transferred to the profit and loss account as a movement on reserves.

## **Turnover**

Turnover represents amounts receivable for goods and services provided in the normal course of business, net of trade discounts, value added taxes ("VAT") and other sales related taxes.

Turnover of the business for each market is treated consistently without any differentiation between market sectors, and apart from long-term contracts, revenue is recognised on an accruals basis.

Turnover and profit on long-term contracts are recognised in the financial statements according to the overall state of completion of the contract reached during the period. Amounts recoverable on long term contracts, which are included in accrued income, are stated at the sales net value of the work done less amounts received as progress payments on the account. Excess progress payments are included in deferred income as payments on account. Cumulative costs incurred net of amounts transferred to cost of sales, less provision for contingencies and anticipated future losses on contracts, are included as long term contract balances in stock and work in progress.

## **Investments**

The Group's investments in subsidiary companies associate undertakings and joint ventures are stated at cost less any provision for impairment. Impairment reviews are carried out by management should any events occur or business circumstances change which indicate that recoverable amount is below carrying value. Any impairment provisions are charged to the company profit and loss account.

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The Group has certain contractual agreements with other participants in unincorporated entities that create an entity carrying on a trade or business of its own (joint arrangements – non entity). The Group include the results of these entities within its own results.

The Group's investments in joint ventures and associate undertakings are accounted for using the equity method.

### **Foreign currency**

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. Exchange differences are included in the profit and loss account.

The results of overseas operations are translated at average rates of exchange during the year and the balance sheet translated into sterling at the rate of exchange ruling on the balance sheet date. Exchange differences that arise from translation of the opening net assets in foreign subsidiary's undertakings and any other exchange differences are taken to the profit and loss account reserves.

### **Leases**

Assets held under finance leases and other similar contracts, which confer rights and obligations similar to those attached to owned assets are capitalized as tangible fixed assets and are depreciated over the shorter of their useful lives or the lease period. The capital elements of future asset lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the leases to produce a constant rate of charge on the balance of capital repayments outstanding.

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term, except where the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate is shorter than the full lease term, in which case the shorter period is used.

### **Sale and leaseback**

Sale and leaseback arrangements, by means of a finance lease are accounted for in the same manner as a standard finance lease agreement. On sale, the asset is not removed from the fixed assets and any profit or loss on disposal is deferred and amortised over the useful life of the asset.

### **Leased assets – Lessor**

Annual rentals from operating leases are credited to the profit and loss account on a straight line basis over the term of the lease, with the leased asset accounted for in accordance with the policy for tangible fixed assets.

### **Pensions**

The Group operates various pension plans comprising both defined benefit plans and defined contribution plans. GMSL also makes contributions on behalf of employees whom are members of the Merchant Navy Officers Pension Fund ("MNOFP").

For the defined benefit plans and the MNOFP plan the amount charged to operating profit are the current service costs and the gains and losses on settlements and curtailments. These are included as part of staff costs. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until the vesting occurs. The interest cost and the expected return of assets are shown as a net amount of other finance cost or income adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

Defined benefit plans are funded with the assets of the scheme held separately from those of the Group, in separate trustee-administered funds. Pension plan assets are measured at fair value and liabilities are measured on an actuarial

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basis using the projected unit method and discounted at a rate of equivalent currency and term to the plan liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability is presented separately after net assets on the face of the balance sheet.

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

### **Stocks and work in progress**

Stocks are valued at the lower of cost and net realisable value on a first in first out basis. Provisions for deterioration and obsolescence are made where appropriate and are charged to the profit and loss account in operating expenses.

Short term work in progress on contracts is stated at cost less foreseeable losses. These costs include only direct labour and expenses incurred to date and exclude any allocation of overheads. The policy for long term work in progress contracts is disclosed within the Turnover accounting policy.

### **Research and development**

Research and development expenditure is written off to the profit and loss account as incurred. Development expenditure is also written off as incurred.

### **Taxation**

Global Marine Systems Limited re-entered into the U.K. tonnage tax regime on January 1, 2011 for a period of ten years. Under the tonnage tax regime the current year tax charge arising on qualifying activities is calculated by reference to net tonnage of the qualifying ships owned by the Group.

This method replaces both the tax-adjusted commercial profit/loss on qualifying shipping trade and chargeable gains/losses made on disposal of tonnage tax assets as calculated in previous periods. To the extent that the company generates profits/losses, which do not qualify for inclusion under the above regime, they will be taxable under general U.K. corporation tax principles.

Deferred taxation should not generally arise in respect of profits/losses within the tonnage tax regime. However, where the Group generates profits/losses which do not qualify for inclusion under the above regime, deferred taxation will be provided on income and expenditure dealt with for taxation purposes in periods different from those for accounting purposes, to the extent that it is probable that a liability or asset will crystallise. Deferred tax balances are not discounted.

### **Other operating income**

Other operating income consists of income from miscellaneous asset sales not considered to be part of the core operating business. Revenue and costs are recognized on completion of the sale or event as described in the individual contract.

### **Exceptional items**

Exceptional items are those material items of income and expenditure which the Group has disclosed separately because of their quantum or incidence so as to give a clearer understanding of the Group's financial performance.

## **Financial Presentation Background**

In the following presentations and narratives within this "Management's Discussion and Analysis of Financial Condition and Results of Operations of Global Marine," Global Marine compares, pursuant to accounting principles generally accepted in the United Kingdom ("U.K. GAAP"), its results of operations for the year ended December 31, 2013 as compared to the year ended December 31, 2012, the year ended December 31, 2012 as compared to the year ended December 31, 2011 and the six months ended June 30, 2014 as compared to the six months ended June 30, 2013.

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## Discontinued Operations

2012 Developments— In the fourth quarter of 2012, the Company sold GME to Prysmian UK.

Summarized operating results of the discontinued operations are as follows (in thousands):

	Years Ended December 31,			Six months ended June 30,	
	2013	2012	2011	2014	2013
	£	£	£	£	£
Net revenue	—	26,965	30,254	—	—
Operating expenses	—	(39,417)	(42,885)	—	—
Income (loss) from operations	—	(12,452)	(12,631)	—	—
Interest expense	—	(1)	—	—	—
Interest income and other income (expense)	(7,616)	5,242	—	—	—
Income (loss) before income tax	(7,616)	(7,211)	(12,631)	—	—
Income tax (expense) benefit	—	(424)	—	—	—
Income (loss) from discontinued operations	(7,616)	(7,635)	(12,631)	—	—

## Results of Continuing Operations

**Results of Continuing Operations for the Six Months Ended June 30, 2014 as Compared to the Six Months Ended June 30, 2013**

	Six months ended June 30,			
	Jun-14	Jun-13	Variance	Variance
	£k	£k	£k	%
Revenue	52,731	47,138	5,593	11.9%
Cost of Revenue	(42,268)	(33,225)	(9,043)	-27.2%
Gross Profit	10,463	13,913	(3,450)	24.8%
	19.8%	29.5%		
SG&A	(3,405)	(3,102)	(303)	-9.8%
Operating Profit	7,058	10,811	(3,753)	34.7%
	13.4%	22.9%		
Share of JVs	1,573	1,446	127	8.8%
Profit on sale of tangible assets	—	84	(84)	-100.0%
Net interest and other income	(210)	(2,273)	2,063	90.8%
Foreign currency gain (loss)	1,407	(1,551)	2,958	190.7%
Income tax expense	(443)	(212)	(231)	-109.0%
Net income (loss)	9,385	8,305	1,080	13.0%
Minority interest	(881)	(755)	(126)	-16.7%
Net income (loss) attributable to Bridgehouse Marine Limited	8,504	7,550	954	12.6%

### Revenue:

Revenue increased by 11.9% to £52.7 million for the six months ended June 30, 2014, from £47.1 million for the same six month period in 2013. The revenue increase was primarily due to work performed on large subsea cable projects including the BT Highlands and Islands installation project, as well as the Asia Submarine-cable Express Segment 4 repair in Hong Kong. Both projects were completed in the first quarter of 2014.

**Cost of revenue:**

Cost of revenue increased by 27.2% to £42.3 million for the six months ended June 30, 2014 from £33.2 million for the same six month period in 2013. The increase in direct cost was due to the flow through of direct costs from the increase in revenues. The gross margin percentage decreased from 29.5% in 2013 to 19.8% in 2014 due to the number of higher margin projects completed in Asia during the first half of 2013.

**Selling, general and administrative expenses:**

SG&A expenses increased by 9.8% to £3.4 million for the six months ended June 30, 2014, from £3.1 million for the same six month period in 2013. The increase in expense can be attributed to additional headcount in the sales, bids and project support areas to help secure and sustain future growth in the oil & gas and offshore power market segments.

**Net interest and other income:**

Net interest expense and other income reduced £2.1 million to £0.2 million for the six months ended June 30, 2014 from £2.3 million for the same six month ended June 30, 2013. The decrease can be attributed to an £0.9 million saving in interest payable following the replacement of the Sovereign and Sentinel finance leases with a term loan in January 2014 and also £1.0 million of the interest received in relation to short term loans advanced to a related third party of the parent company.

**Foreign currency transaction gain (loss):**

The foreign currency transaction loss of £1.6 million for the six months ended June 30, 2013 moved to a gain of £1.4 million in the same six month period ended June 30, 2014. The gains and losses are attributable to the impact of foreign currency exchange rate changes on receivables and payables denominated in a currency other than the subsidiaries' functional currency.

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**Results of Continuing Operations for the Year Ended December 31, 2013 as Compared to the Year Ended December 31, 2012**

	Years ended December 31,		Variance £k	Variance %
	2013 £k	2012 £k		
Revenue	99,004	102,306	(3,302)	-3.2%
Cost of Revenue	(77,967)	(88,315)	10,348	11.7%
Gross Profit	21,037	13,991	7,046	50.4%
	21.2%	13.7%		
SG&A	(6,554)	(6,732)	178	2.6%
Exceptional item	(4,250)	—	(4,250)	-100.0%
Operating Profit	10,233	7,259	2,974	
	10.3%	7.1%		
Share of JVs	3,354	3,491	(137)	-3.92%
Profit on sale of tangible assets	40	657	(617)	-93.9%
Net interest and other income	(3,000)	(4,967)	1,967	39.6%
Foreign currency gain (loss)	913	(346)	1,259	363.9%
Income tax expense	(469)	(342)	(127)	-37.1%
Net income (loss)	11,071	5,752	5,319	92.5%
Minority interest	(1,362)	337	(1,699)	-504.2%
Net income (loss) attributable to Bridgehouse Marine Limited	9,709	6,089	3,620	59.5%

**Revenue:**

Revenue decreased by 3.2% to £99.0 million for the year ended December 31, 2013, from £102.3 million for the year ended December 31, 2012. The revenue decrease was primarily due to the benefit in 2012 of ramp-up in work on the North American Zone maintenance contract and £1.7 million of additional work performed outside of the SEAIOCMA contract.

**Cost of revenue:**

Cost of revenue decreased by 11.7% to £78.0 million for the year ended December 31, 2013 from £88.3 million for the year ended December 31, 2012. The decrease in direct costs in 2013 was primarily due to a £2.7 million reduction in fuel costs (Prysmian charters in 2013 excluded fuel cost), a £1.8 million decrease in depreciation expense from the 2012 vessel revaluation exercise, a £2.6 million 'one off' charge taken in 2012 to settle an equipment lease and the additional £1.5 million of direct costs incurred on the SEAIOCMA outside work performed in 2012.

**Selling, general and administrative expenses:**

SG&A costs decreased by 2.6% to £6.6 million for the year ended December 31, 2013 from £6.7 million for the year ended December 31, 2012. The decrease was due primarily to the sale of GME and the subsequent headcount reduction, mainly in the administrative areas of the business.

**Exceptional item:**

The exceptional item of £4.25 million was as a result of an intragroup loan write off.

**Net interest and other income:**

Net interest expense and other income decreased by £2.0 million to £3.0 million for the year ended December 31, 2013 from £5.0 million for the year ended December 31, 2012. The decrease was primarily as a result of interest savings on the renegotiation of the Cable Retriever finance lease.

**Foreign currency transaction gain (loss):**

The foreign currency transaction loss of £0.3 million in 2012 moved to a gain of £0.9 million in 2013. The gains and losses are attributable to the impact of foreign currency exchange rate changes on receivables and payables denominated in a currency other than the subsidiaries' functional currency.

**Results of Continuing Operations for the Year Ended December 31, 2012 as Compared to the Year ended December 31, 2011**

	Years ended December 31,		Variance	Variance
	2012	2011		
	£k	£k	£k	%
Revenue	102,306	83,138	19,168	23.1%
Cost of Revenue	(88,315)	(72,131)	(16,184)	-22.4%
Gross Profit	13,991	11,007	2,984	27.1%
	13.7%	13.2%		
SG&A	(6,732)	(6,603)	(129)	-2.0%
Operating Profit	7,259	4,404	2,855	64.8%
	7.1%	5.3%		
Share of JVs	3,491	1,451	2,040	140.6%
Profit on sale of tangible assets	657	824	(167)	-20.3%
Net interest and other income	(4,967)	(4,186)	(781)	-18.7%
Foreign currency gain (loss)	(346)	(549)	203	37.0%
Income tax expense	(342)	(522)	180	34.5%
Net income (loss)	5,752	1,422	4,330	304.5%
Minority interest	337	—	337	100.0%
Net income (loss) attributable to Bridgehouse Marine Limited	6,089	1,422	4,667	328.2%

**Revenue:**

Revenue increased by 23.1% to £102.3 million for the year ended December 31, 2012, from £83.1 million for the year ended December 31, 2011. The increase of £19.2 million is primarily due to additional Charter and Fleet Manning contracts in the offshore wind market segment.

### Cost of revenue:

Cost of revenue increased by 22.4% to £88.3 million for the year ended December 31, 2012 from £72.1 million for the year ended December, 31 2011. The increase is largely due to the corresponding increase in revenue, partially offset by a slight margin improvement.

### Selling, general and administrative expenses:

SG&A costs increased by 2.0% to £6.7 million for the year ended December 31, 2012 from £6.6 million for the year ended December 31, 2011.

### Net interest and other income:

Net interest and other income increased £0.8 million to £5.0 million for the year ended December 31, 2012 from £4.2 million for the year ended December 31, 2011.

### Liquidity and Capital Resources

	Years ended December 31,			Six months ended June 30,	
	2013	2012	2011	Jun-14	Jun-13
	£k	£k	£k	£k	£k
Net cash inflow from operating activities	30,239	457	10,876	20,292	9,950
Dividends from joint ventures/associates	3,109	23,687	4,489	1,145	926
Net cash outflow from returns on investment and service of finance	(4,578)	(5,602)	(5,469)	(82)	(2,424)
Net cash outflow from taxation	(30)	(44)	(23)	(134)	(21)
Net cash outflow from capital expenditure and financial investment	(28,212)	(20,777)	(18,280)	(1,461)	(2,755)
Net cash inflow/(outflow) from acquisitions and disposals	0	39,071	0	(17,942)	0
Net cash outflow from financing	(4,312)	(17,883)	(5,557)	(6,618)	(2,033)
<b>(Decrease)/increase in cash</b>	<b>(3,784)</b>	<b>18,909</b>	<b>(13,964)</b>	<b>(4,800)</b>	<b>3,643</b>

### Changes in Cash Flows

The Group's principal liquidity requirements arise from cash used in its normal operating activities, vessel maintenance and upgrades, additional subsea equipment, finance lease repayments and other loan financing of its fleet.

Net cash provided by operating activities was £20.3 million for the six months ended June 30, 2014 as compared to net cash provided by operating activities of £10.0 million for the six months ended June 30, 2013. The increase can be primarily attributed to working capital improvements, particularly in the collection of receivables and increased focus on supplier management, increasing cash by £3.1 and £7.3 million, respectively.

Net cash provided by operating activities was £30.2 million for the year ended December 31, 2013 as compared to net cash provided by operating activities of £0.5 million for the year ended December 31, 2012. The major drivers of this change was a £16.2 million improvement in the movement in the working capital and provisions figure in addition to the £15.4 million uplift in operating profit from 2012.

Net cash provided by operating activities was £0.5 million for the year ended December 31, 2012 as compared to £10.9 million for the year ended December 31, 2011. The major driver of this change was a £15.1 million decrease in the movement in the working capital and provisions figure offset slightly by the £3.0 million reduction in the operating loss for the year.

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Net cash provided by dividends from joint ventures and associates was £1.1 million for the six months ended June 30, 2014 as compared to £0.9 million for the six months ended June 30, 2013.

Net cash provided by dividends from joint ventures and associates was £3.1 million for the year ended December 31, 2013 as compared to £23.7 million for the year ended December 31, 2012.

Net cash provided by dividends from joint ventures and associates was £23.7 million for the year ended December 31, 2012 as compared to £4.5 million for the year ended December 31, 2011. The additional dividends received in 2012 came from our Singapore based joint venture, ICPL and was a result of a renegotiation in the capital repayment schedule of Cable Retriever vessel lease.

Net cash used in investing activities was £0.1 million for the six months ended June 30, 2014 as compared to £2.4 million for the six months ended June 30, 2013 and represented net interest paid on investments.

Net cash used in investing activities was £4.6 million for the year ended December 31, 2013 as compared to £5.6 million for the year ended December 31, 2012 and represented net interest paid on investments.

Net cash used in investing activities was £5.6 million for the year ended December 31, 2012 as compared to £5.5 million for the year ended December 31, 2011 and represented net interest paid on investments.

Net cash used in capital expenditure and financial investment was £1.5 million for the six months ended June 30, 2014 as compared to £2.8 million for the six months ended June 30, 2013 and represented, primarily, purchase of plant and vessel equipment.

Net cash used in capital expenditure and financial investment was £28.2 million for the year ended December 31, 2013 as compared to £20.8 million for the year ended December 31, 2012 and represented, primarily, a short term advance of £18.5 million to a related third party of the parent company and also purchase of plant and equipment.

Net cash used in capital expenditure and financial investment was £20.8 million for the year ended December 31, 2012 as compared to £18.3 million for the year ended December 31, 2011 and represented, primarily, purchases of plant and vessel equipment and in particular the additional £18.1 million spent on the upgrading of the Cable Enterprise vessel. This vessel expenditure was partially offset by the sale proceeds from the divestment of Global Marine's joint venture interest in NTTWEM.

Net cash used in prior period sale of the GME business operations was £17.9 million for the six months ended June 30, 2014 as compared to zero for the six months ended June 30, 2013.

Net cash provided by acquisitions and disposals was zero for the year ended December 31, 2013 as compared to £39.1 million for the year ended December 31, 2012.

Net cash provided by acquisitions and disposals was £39.1 million for the year ended December 31, 2012 as compared to zero for the year ended December 31, 2011 and represented the sales proceeds of Global Marine's Energy subsidiary, GME and NTTWEM, its joint venture in Japan.

Net cash used in financing activities was £6.6 million for the six months ended June 30, 2014 as compared to £2.0 million for the six months ended June 30, 2013. The increase was largely due to the £4.9 million of cash expended in the refinancing exercise of two of Global Marine's vessels in January 2014

Net cash used in financing activities was £4.3 million for the year ended December 31, 2013 as compared to £17.9 million for the year ended December 31, 2012. Net cash used in financing activities during the year ended December 31, 2013 included, £4.2 million for the repayment of finance lease capital.

Net cash used in financing activities was £17.9 million for the year ended December 31, 2012 as compared to £5.6 million for the year ended December 31, 2011 solely relating to the repayment of finance lease capital in connection with the Cable Retriever vessel.

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## Short- and Long-Term Liquidity Considerations and Risks; Contractual Obligations

As of December 31, 2013, GMSL had £26.0 million of cash and cash equivalents. Global Marine believes that its existing cash and cash equivalents will be sufficient to fund its fixed obligations (such as vessel finance leases, vessel term loan commitments and our defined benefit pension obligations), and all other cash needs for our ongoing operations for at least the next twelve months.

As of June 30 2014 we have £1.3 million of annual non-cancellable future operating lease payments.

The obligations set forth in the table below reflect the contractual payments of principal that existed as of June 30, 2014, December 31, 2013 and December 31 2012:

Annual commitments under non-cancellable operating leases are as follows:

Group	Jun-14		2013		2012	
	Land and buildings	Other	Land and buildings	Other	Land and buildings	Other
	£'000	£'000	£'000	£'000	£'000	£'000
Operating leases which expire						
Within one year	—	—	—	—	10	—
Between two and five years	504	—	520	464	358	—
After five years	835	—	835	—	1,025	—
	<u>1,339</u>	<u>—</u>	<u>1,355</u>	<u>464</u>	<u>1,393</u>	<u>—</u>

Financial commitments at the end of the year for which no provision has been made:

Group and Company	June 2014	2013	2012
	£'000	£'000	£'000
Fixed Asset Purchase Commitments	<u>134</u>	<u>732</u>	<u>4,883</u>

## **Related Party Transactions**

Details of dividends received in respect of the associated undertakings and joint ventures were as follows:

### **For the six months ended 30 June 2014**

- Dividends of £1,018,543 were received from Sino British Submarine Systems Co Limited
- Capital repayment of £188,954 was received from Sembawang Cable Depot Pte Limited

### **For the year ended 31 December 2013**

- Dividends of £877,838 were received from Sino British Submarine Systems Co Limited
- Dividends of £1,836,276 were received from International Cables Pte Limited,
- Dividends of £249,813 were received from Sembawang Cable Depot Pte Limited.

## **Quantitative and Qualitative Disclosures about Market Risk**

Global Marine's primary market risk exposures relate to changes in foreign currency exchange rates.

Foreign currency can impact Global Marine's financial results. During the year ended December 31, 2013, approximately 79% of Global Marine's net revenue from continuing operations was derived from sales and operations outside the U.K. The reporting currency for Global Marine's consolidated financial statements is the GBP. The local currency of each country is the functional currency for each of its respective entities operating in that country. In the future, Global Marine expects to continue to derive a portion of its net revenue and incur a portion of its operating costs from outside the U.K., and therefore changes in exchange rates may continue to have a significant, and potentially adverse, effect on its results of operations. Global Marine's risk of loss regarding foreign currency exchange rate risk is caused primarily by fluctuations in the USD/GBP exchange rate. Due to a percentage of its revenue derived outside of the U.K., changes in the USD relative to the GBP could have an adverse impact on Global Marine's future results of operations. The exposure of Global Marine's income from operations to fluctuations in foreign currency exchange rates is reduced in part because a majority of the costs that it incurs in connection with its foreign operations are also denominated in local currencies.

Global Marine is exposed to financial statement gains and losses as a result of translating the operating results and financial position of its international subsidiaries. Global Marine translates the local currency statements of operations of its foreign subsidiaries into GBP using the average exchange rate during the reporting period. Changes in foreign exchange rates affect the reported profits and losses and cash flows of its international subsidiaries and may distort comparisons from year to year.

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## BUSINESS

### HC2

We are a diversified, publicly traded holding company focused on acquiring and investing in businesses with attractive assets and sustainable cash flows that we consider to be undervalued or fairly valued and growing our acquired businesses. Our principal holdings include: (i) 90.6% equity interest in Schuff, in the steel fabrication and erection industry, (ii) 97% equity interest in Global Marine, in the telecom infrastructure business and (iii) other businesses owned or otherwise controlled by HC2 Holdings, Inc., including telecommunications services, life sciences and energy. The Company was formed as a corporation under the laws of Delaware in 1994 and operates as a holding company of operating companies primarily in the U.S. and the United Kingdom. Our principal holdings, Schuff and Global Marine, are described in greater detail under the headings "Schuff" and "Global Marine" below.

#### **Our Competitive Strengths**

##### ***Diverse and Unrelated Sources of Cash Flow***

Our operating subsidiaries span a broad set of industries, end markets and geographies, such as construction, telecommunications infrastructure, telecommunications services, technology, life sciences and energy. As exemplified by our recent acquisitions of Schuff and Global Marine, we intend to acquire attractive businesses that generate sustainable free cash flow and/or have significant growth potential and further diversify our revenues and cash flows. Our primary source of cash flow is dividends provided by our operating subsidiaries. In particular, Schuff's pipeline of backlog projects and Global Marine's approximately 50% of total revenue generated from long-term contracts provide visible and stable opportunities for cash flow. We employ a balanced dividend strategy at our operating subsidiaries that aims to distribute recurring cash flow streams to us to service interest, preferred dividend and other expenses, while preserving sufficient capital for reinvestment and growth.

##### ***Strong Liquidity and Collateral Coverage Position***

As of September 30, 2014, on a pro forma basis we had approximately \$30.3 million in corporate cash, cash equivalents and investments, excluding those held by our operating subsidiaries. Additionally, as of September 30, 2014, there was significant liquidity at Schuff of \$34.5 million (which includes availability under the Schuff Facility) and at Global Marine of £41 million. Given our significant and controlling ownership interests at Schuff and Global Marine, we have access to their cash to service our interest, preferred dividend and operating expense requirements. In addition to liquidity and access to cash flow, the notes will benefit from strong asset coverage given the low financial leverage at our subsidiaries. On a pro forma basis, as of June 30, 2014, we would have had a Collateral Coverage Ratio of approximately 1.3 to 1.0, reflecting our ownership of the significant majority of the equity in each of Schuff and Global Marine, as well as corporate cash, investments in other liquid securities such as stock in Novatel Wireless, Inc. (NASDAQ:MIFI), and other private investments.

##### ***Experienced Management Team with Proven Track Record***

The investment expertise and resources of our management team allow us to effectively pursue our business strategy. Our management team is comprised of industry professionals with expertise across a variety of industries. Led by Philip A. Falcone, Keith M. Hladek, Paul Voigt, Robert M. Pons, Mesfin Demise, and other investment professionals, our management team has a proven track record and average of 25 years of industry experience. Philip A. Falcone, who serves as our Chairman, President and Chief Executive Officer, has over two decades of experience in leveraged finance, distressed debt, special situations and investing, including as a director, Chairman of the Board and Chief Executive Officer of Harbinger Group Inc. since July 2009.

#### **HC2 Strategy Overview**

We intend to acquire controlling interests in companies that we consider to be undervalued or fairly valued with attractive financial or strategic characteristics. We intend to take a long-term view and seek opportunities that are able to generate high returns and significant cash flows. We intend to seek a variety of acquisition opportunities, including businesses where we believe a catalyst for value realization is already present, where we can engage with companies to unlock value or where we can realize synergies with our existing businesses. We may also seek businesses that are in need of a

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financial restructuring or operational turnaround. In addition to our intention to acquire controlling equity interests, we may also from time to time make investments in debt instruments and acquire minority equity interests in companies.

We intend to take an active approach to managing the companies in which we acquire a controlling interest. Such activities may include assembling senior management teams with the expertise to operate the businesses, providing existing management of such companies with specific operating objectives, acquiring or combining complimentary businesses or expanding existing operations. We bring an owner's perspective to our operating businesses and we will hold management accountable for their performance.

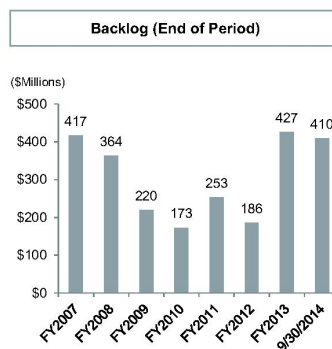
## HC2 Businesses

We currently operate five material businesses: Schuff, Global Marine, ICS, Genovel, and ANG. Schuff and Global Marine are our primary businesses. Together, Schuff and Global Marine constitute approximately 76% of our total assets. For more information on Schuff and Global Marine, see the information under the headings "Schuff" and "Global Marine," respectively, and the financial statements of Schuff and Global Marine, each found elsewhere in this current report on Form 8-K.

## Our Operating Subsidiaries

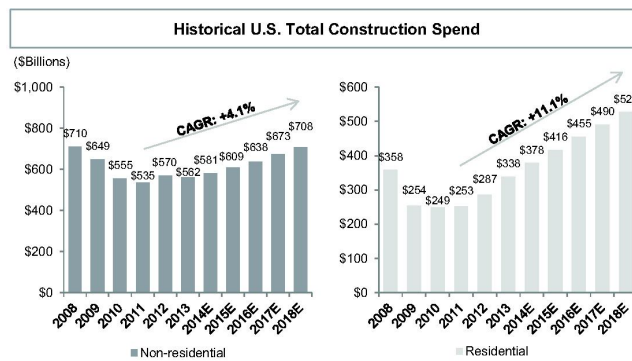
### Schuff

Schuff is a leading provider of structural steel fabrication, erection and engineering support services in the United States with revenues of \$460.7 million and Adjusted EBITDA of \$37.6 million for the last twelve months ended June 29, 2014. Over a 38 year operating history, Schuff has amassed the value-added capabilities, fabrication expertise, broad geographic footprint and reputation for excellence that management believes make it the provider of choice for the country's largest and most complex steel structures. Examples of some of the many projects Schuff has completed include the Cosmopolitan Resort Casino, Arizona Cardinals Stadium and the San Diego Airport. Current projects under constructions include the signature main building on Apple Campus 2 in Cupertino, CA and the Wilshire Grand Center in Los Angeles, CA. In total, as shown by the chart below Schuff's backlog as of September 30, 2014 stands at approximately \$410 million with a large pipeline of additional projects coming up for bid. Recent contract wins have been bid at higher margins than in the past several years. In addition, the backlog does not fully reflect the revenue Schuff expects to capture from the current contracts underway. Contracts, particularly larger contracts, generally exceed their initial value due to change orders that arise during construction than by more than 10% of the original contract value.



Schuff operates primarily within the over \$550 billion non-residential construction industry, which serves a diverse set of end markets. As shown on the chart below, while non-residential construction has shown only a small rebound since 2011, industry experts expect that it will follow the already significant rebound in residential construction spending. Despite only a modest increase in non-residential construction spending, Schuff's backlog has already rebounded to pre-economic crisis levels.

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Schuff consists of three business units spread across diverse steel markets: Schuff Steel Company (steel fabrication and erection), Schuff Steel Management Company (management of smaller projects, leveraging subcontractors) and Aitken, Inc. (manufacturing of equipment for the oil & gas industry). For the fiscal year ended December 29, 2013, Schuff Steel's revenues of \$374 million account for 90% of Schuff's total revenue. Schuff Steel Management Company's revenues of \$30 million account for 7% of Schuff's total revenue. Aitken, Inc.'s revenues of \$4 million account for 1% of Schuff's total revenue. Schuff also provides fabricated steel to Canada and other select countries, including Panama, where Schuff owns 49% of Panama-based Schuff Hopsa Engineering, Inc., an engineering design, steel fabrication and erection company, Empresas Hopsa, S.A. Schuff Hopsa Engineering, Inc.'s revenues of \$9 million account for 2% of Schuff's total revenue. For the fiscal year ended December 29, 2013, no single customer accounted for greater than 10% of total revenues.

Schuff's size gives it production capacity to complete large-scale, demanding projects, with typical utilization per facility ranging from 50%-88% and a sales pipeline that includes over \$800 million in potential revenue generation. Schuff has benefitted from being one of the largest players in a market that is highly fragmented across many small firms. Schuff outperformed many of its competitors in the recent downturn. Due to its strong financial position and continued access to bonding facilities, whereas many competitors were forced to close their doors.

Schuff ensures a highly efficient and cost-effective construction process by focusing on partnering with all project participants and utilizing its extensive design-build and design-assist capabilities with its clients. Additionally, Schuff enjoys in-house fabrication and erection combined with access to a network of subcontractors for smaller projects in order to provide high quality solutions for its customers. Schuff offers a range of services across a broad geography through its 10 fabrication shops and 10 sales and management facilities located in the United States and Panama.

Schuff operates with minimal bonding requirements, with the current balance less than 13% of backlog, and bonding is reduced as projects are billed, rather than upon completion. Schuff has limited raw material cost exposure by securing fixed prices from mills at contract bid, and utilizing its purchasing power as the largest domestic buyer of wide flange beam in the United States.

#### Schuff Products

Schuff Steel offers a variety of services to its customers which it believes enhances our ability to obtain and successfully complete projects. These services fall into six distinct groups: design-assist/design-build, preconstruction design & budgeting, steel management, fabrication, erection, and Building Information Modeling ("BIM"). Schuff primarily operates in the southwestern and southeastern United States geographic markets.

- *Design-Assist/Design-Build:* Using the latest technology and BIM, Schuff works to provide clients with cost-effective steel designs. The end result is turnkey structural steel solutions for its diverse client base.
- *Preconstruction Design & Budgeting:* Clients who contact Schuff in the early stages of planning can receive a Schuff-performed analysis of the structure and cost breakdown. Both of these tools allow clients to accurately plan and budget for any upcoming project.

- *Steel Management:* Using Schuff's proprietary Schuff Steel Integrated Management System ("SSIMS"), Schuff can track any piece of steel and instantly know its location. Additionally, Schuff can help clients manage steel subcontracts, providing clients with savings on raw steel purchases and giving them access to variety of Schuff-approved subcontractors.
- *Fabrication:* Through its nine fabrication shops in California, Arizona, Texas, Kansas and Georgia, Schuff has one of the highest fabrication capacities in America. Schuff has over 1.3 million square feet of steel under roof and a maximum annual fabrication capacity of approximately 300,000 tons.
- *Erection:* Named the nation's top steel erector in 2007, 2008, 2011, 2013 and 2014 by Engineering News-Record, Schuff knows how to add value to its project through safe and efficient erection of steel structures.
- *BIM:* Schuff is experienced in using BIM on every project to manage its role efficiently. Additionally Schuff's use of SSIMS in conjunction with BIM allows for real-time reporting of a project's progress and information-rich model review.

Schuff Steel Management Company provides turn-key steel fabrication and erection services with an expertise in project management. Using these skills, Schuff Steel Management Company uses its relationships with reliable subcontractors and erectors, along with state-of-the-art management systems, to deliver excellence to clients.

Schuff's third product line, Aitken, is a manufacturer of equipment used in the oil, gas, petrochemical and pipeline industries. Aitken supplies the following products both nationwide and internationally.

- Strainers: Temporary Cone and Basket Strainers, Tee Type Strainers, Vertical and Horizontal Permanent Line Strainers, Fabricated Duplex Strainers
- Measurement Equipment: Orifice Meter Tubes, Orifice Plates, Orifice Flanges, Seal Pots, Flow Nozzles, Venturi Tubes, Low Loss Tubes, Straightening Vanes
- Major Products: Spectacle Blinds, Paddle Blinds, Drip Rings, Bleed Rings, and Test Inserts, ASME Vessels, Launchers, Pipe Spools

#### *Schuff Strategy Overview*

Schuff's objective is to achieve and maintain a leading position in the geographic regions and project segments that we serve by providing timely, high-quality services to our customers. Schuff is pursuing this objective with a strategy comprised of the following components:

*Pursue Large, Value-Added Design-Build Projects.* Schuff's unique ability to offer design-build services, a full range of steel construction services and project management capabilities makes it a preferred partner for complex fabrication projects in the geographic regions which we serve. This capability often enables Schuff to bid against fewer competitors in a less traditional, more negotiated selection process on these projects, thereby offering the potential for higher margins while providing overall cost savings and project flexibility and efficiencies to its customers.

*Expand and Diversify Revenue Base.* Schuff is seeking to expand and diversify its revenue base by leveraging its long-term relationships with national and multi-national construction and engineering firms, national and regional accounts and other customers. Schuff also intends to continue to grow its operations by targeting smaller projects that carry higher margins and less risk of large margin fluctuations. Schuff believes that continuing to diversify its revenue base by completing smaller projects—such as low-rise office buildings, healthcare facilities and other commercial and industrial structures—could reduce the impact of periodic adverse market or economic conditions as well as potential margin slippage that may accompany larger projects.

*Emphasize Innovative Services.* Schuff focuses our design-build, engineering, detailing, fabrication, and erection expertise on larger, more complex projects, where it typically experiences less competition and more advantageous negotiated contract opportunities. Schuff has extensive experience in providing services requiring complex fabrication and erection techniques and other unusual project needs, such as specialized transportation, steel treatment or specialty coating applications. These service capabilities have enabled Schuff to address such design-sensitive projects as stadiums and uniquely designed hotels and casinos.



*Diversify Customer and Product Base.* Although Schuff seeks to garner a leading share of the geographic and product markets in which we compete, it also seeks to diversify its construction projects across a wide range of commercial, industrial, and specialty projects, including projects related to the oil & gas and alternative energy industries.

#### *Suppliers*

Schuff currently purchases a majority of its steel from various foreign and domestic steel producers but is not dependent on any one producer.

#### *Customers*

During 2013, Schuff did not have revenues from any one customer in excess of 10% of the year's revenues.

#### *Sales and Distributions*

Schuff offers its services primarily to general contractors and engineering firms that focus on a wide array of projects such as airports, malls, power plants, stadiums, shopping malls and centers. Schuff obtains these contracts through competitive bidding or negotiation, which generally are fixed-price, cost-plus, or unit cost arrangements. Bidding and negotiations require Schuff to estimate the costs of the project up front with most projects typically lasting from one to 12 months.

#### *Marketing*

Sales managers lead Schuff's domestic sales and marketing efforts. Each sales manager is responsible primarily for estimating, sales, and marketing efforts in defined geographic areas. In addition, Schuff employs full-time project estimators and chief estimators. Schuff's sales representatives maintain relationships with general contractors, architects, engineers, and other potential sources of business to determine potential new projects under consideration. Schuff generates future project reports to track the weekly progress of new opportunities. Schuff's sales efforts are further supported by most of its executive officers and engineering personnel, who have substantial experience in the design, fabrication, and erection of structural steel and heavy steel plate.

Schuff competes for new project opportunities through its relationships and interaction with its active and prospective customer base, which provides valuable current market information and sales opportunities. In addition, Schuff is contacted by governmental agencies in connection with public construction projects, and by large private-sector project owners, general contractors and engineering firms in connection with new building projects such as plants, warehouse and distribution centers, and other industrial and commercial facilities.

Upon selection of projects to bid or price, Schuff's estimating division reviews and prepares projected costs of shop, field, detail drawing preparation and crane hours, steel and other raw materials, and other costs. On bid projects, a formal bid is prepared detailing the specific services and materials Schuff plans to provide, payment terms and project completion timelines. Upon acceptance, Schuff's bid proposal is finalized in a definitive contract.

#### *Competition*

In both its product and geographic markets Schuff faces heavy competition from other contractors that operate on local, regional, or national levels; some of whom have financial and operating resources greater than Schuff's. However, Schuff's competition varies within each product and geographic market, so it does not face any one overarching competitor. Schuff does believe it is able to compete effectively for any given project as it is one of the largest competitors in the industry. Within the industry, the main competitive factors are price, timeliness of completion of projects, quality, reputation, and the desire of customers to repeatedly use the same contractors so long as they have a positive experience.

#### *Employees*

Schuff employs approximately 1,300 people across the country. The number of persons Schuff employs on an hourly basis fluctuates directly in relation to the amount of business Schuff performs. Certain of the fabrication and erection personnel Schuff employs are represented by the United Steelworkers of America, the International Association of

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Bridge, Structural, Ornamental and Reinforcing Iron Workers Union, the International Union of Operating Engineers, and the International Brotherhood of Boilermakers, Iron Shipbuilders, Blacksmiths, Forgers and Helpers Union. Schuff is a party to several separate collective bargaining agreements with these unions in certain of its current operating regions, which expire (if not renewed) at various times in the future. Approximately 25% of Schuff's employees are covered under various collective bargaining agreements. Most of Schuff's collective bargaining agreements are subject to automatic annual or other renewal unless either party elects to terminate the agreement on the scheduled expiration date. Approximately 11% of Schuff's employees are covered under a collective bargaining agreement that expires within the next year. Schuff considers its relationship with its employees to be good and, other than sporadic and unauthorized work stoppages of an immaterial nature, none of which have been related to its own labor relations, Schuff has not experienced a work stoppage or other labor disturbance.

Schuff strategically utilizes third-party fabrication and erection subcontractors on many of its projects and also subcontracts detailing services from time to time when economically beneficial and/or Schuff requires additional capacity for such services. Schuff's inability to engage fabrication, erection and detailing subcontractors on terms favorable to it could limit its ability to complete projects in a timely manner or compete for new projects and could have a material adverse effect on its operations.

#### *Legal, Environmental and Insurance*

In December 2012, British Petroleum ("BP") brought suit against Carboline Company ("Carboline"), Trinity Steel Fabricators, Inc. ("Trinity"), the Schuff's subsidiary, Schuff Steel Company ("SSC"), Tecon Services, Inc. ("Tecon") and Alfred Miller Contracting Company ("AMC") in regards to fabrication work on a BP refinery in Indiana. BP alleged that the Schuff subsidiary and others defectively fireproofed certain pieces of steel used in a modernization project at the refinery. AMC and Tecon filed a Petition for Damages and Declaratory Judgment against Caroline, BP Corporation North America Inc., BP Products North America, Trinity, SSC, Schuff Steel-Gulf Coast, Inc., and others. In April 2014, the lawsuits were successfully mediated and a confidential settlement agreement was executed on June 16, 2014. Both cases were dismissed in July 2014.

Schuff is subject to other claims and legal proceedings that arise in the ordinary course of business. Such matters are inherently uncertain, and there can be no guarantee that the outcome of any such matter will be decided favorably to Schuff or that the resolution of any such matter will not have a material adverse effect upon Schuff or the Company's business, consolidated financial position, results of operations or cash flows. Neither Schuff nor the Company believes that any of such pending claims and legal proceedings will have a material adverse effect on its business, consolidated financial position, results of operations or cash flows.

Schuff's operations and properties are affected by numerous federal, state and local environmental protection laws and regulations, such as those governing discharges to air and water and the handling and disposal of solid and hazardous wastes. Compliance with these laws and regulations has become increasingly stringent, complex and costly. There can be no assurance that such laws and regulations or their interpretation will not change in a manner that could materially and adversely affect Schuff's operations. Certain environmental laws, such as the CERCLA and its state law counterparts, provide for strict and joint and several liability for investigation and remediation of spills and other releases of toxic and hazardous substances. These laws may apply to conditions at properties currently or formerly owned or operated by an entity or its predecessors, as well as to conditions at properties at which wastes or other contamination attributable to an entity or its predecessors come to be located. Although Schuff has not incurred any material environmental related liability in the past and believes that it is in material compliance with environmental laws, there can be no assurance that Schuff, or entities for which it may be responsible, will not incur such liability in connection with the investigation and remediation of facilities it currently operates (or formerly owned or operated) or other locations in a manner that could materially and adversely affect its operations. For more information, please see Note 13 to Schuff's Consolidated Financial Statements included elsewhere in this current report on Form 8-K.

Schuff maintains commercial general liability insurance in the amount of \$1.0 million per occurrence and \$2.0 million in the aggregate. In addition, Schuff maintains umbrella coverage limits of \$25.0 million. Schuff also maintains insurance against property damage caused by fire, flood, explosion and similar catastrophic events that may result in physical damage or destruction of its facilities and property. All policies are subject to various deductibles and coverage limitations. Although Schuff's management believes that its insurance is adequate for its present needs, there can be no

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assurance that it will be able to maintain adequate insurance at premium rates that management considers commercially reasonable, nor can there be any assurance that such coverage will be adequate to cover all claims that may arise.

## Global Marine

Global Marine is a global offshore engineering company focused on specialist subsea services across three sectors: telecommunications, oil & gas and offshore power. Global Marine is a pioneer in the subsea cable industry having laid the first subsea cable in 1860 and installed the first transatlantic fiber optic cable (TAT-8) in 1988. Over the last 30 years, Global Marine estimates that it has installed approximately 300,000 kilometers of cable, which management believes represents almost a quarter of all the fiber optic cable on the global seabed today. Global Marine is positioned as a global independent market leader in subsea cable installation and maintenance services and derives approximately 50% of its total revenue from long term, recurring maintenance contracts. Global Marine has a strong financial position with modest debt at the subsidiary level (consisting only of vessel financing), has delivered substantial growth during recent years, is highly cash generative and serves a diverse mix of global, blue-chip clients with excellent credit profiles. It has started a new phase of growth through applying its capabilities to the rapidly expanding oil & gas and offshore power sectors while retaining a leading position in telecommunications. As a result of this growth, Global Marine has major offices in the United Kingdom and Singapore, and has additional presence in Bermuda, Canada, China, Indonesia and the Philippines.

Global Marine operates one of the largest specialist cable laying fleets in the world, consisting of seven vessels (five owned, two operated through long-term leases). Global Marine's fleet has an estimated fair value of approximately \$158 million (with approximately \$82.6 million of associated vessel financing as of June 30, 2014) and are all manned by Global Marine employees or long-term contractors.

### Fleet Details

Vessels	Ownership	Lease Expiry	Joined Fleet	Age	Flag	Base Port	Market Value (\$m)
<b>Maintenance - GMSL</b>							
Wave Venture	GMSL	N/A	Purchased - 1999	31	UK	Victoria, Canada	\$6
Pacific Guardian	GMSL	N/A	New Build - 1984	30	UK	Curacao	9
Wave Sentinel	GMSL	N/A	Purchased - 1999	18	UK	Portland, UK	18
Cable Retriever	ICPL	Jan-23	New Build - 1997	15	Signapore	Batangas, Philippines	N/A
<b>Intallation - GMSL</b>							
Sovereign	GMSL	N/A	New Build - 1991	22	UK	Portland, UK	36
Innovator (2)	DYVI Cables ship AS	Mar-18	New Build - 1995	18	UK	Portland, UK	N/A
Networker	GMSL	N/A	New Build - 1999	14	Panama	Bata, Indonesia	10
Total Value							\$79
<b>SBSS Joint Venture Vessels (49% share)</b>							
Installation							
CS Fu Hai	SBSS	N/A	Purchased - 2003	14	Panama	Shanghai, China	\$45
Bold Maverick	SBSS	N/A	Purchased - 2012	13	Panama	Shanghai, China	45
CS Fu An	SBSS	N/A	Purchased - 2000	32	Panama	Shanghai, China	10
Total Value							\$100
<b>Owned Vessel Market Value</b>							
GMSL Vessels							\$79
SBSS Joint Venture Vessels							49
Total Value							\$128

Global Marine's three sectors of focus for providing subsea cable services are telecommunications installation and maintenance, oil & gas installation and offshore power installation.

*Telecommunications:* Global Marine provides maintenance and installation to its global telecommunications customers. Global Marine has a long, well-established reputation in the telecommunications sector and is considered a leading provider of subsea services in the industry. It operates in a mature market and is the largest independent provider in the maintenance segment. Global Marine provides vessels on standby to repair fiber optic telecommunications cables in defined geographic zones, and its maintenance business is provided through contracts with consortia of up to 60 global telecommunications providers. Typically, Global Marine enters into five to seven year contracts to provide maintenance to cable systems that are located in specific geographical areas. These contracts provide highly stable, predictable and recurring revenue and earnings. During the twelve months ended June 30, 2014, approximately 50% of Global Marine's total revenue was derived from telecommunications maintenance contracts. Additionally, Global Marine provides installation of cable systems including route planning, mapping, route engineering, cable laying, and trenching and burial. Global Marine's installation business is project-based with contracts typically lasting one to five months. During the twelve months ended June 30, 2014, approximately 25% of Global Marine's total revenue was derived from telecommunications installation contracts.

*Oil & Gas:* Global Marine provides installation, maintenance and repair of fiber optic communication and power infrastructure to offshore platforms, while realizing high margins due to implementation complexity. Its primary activities include providing power from shore, enabling fiber-based communication between platforms and shore-based systems and installing permanent reservoir monitoring systems which allow customers to monitor subsea seismic data. The majority of Global Marine's oil & gas business is contracted on a project-basis with major energy producers or tier I engineering, procurement and construction (EPC) contractors.

*Offshore Power:* Global Marine focuses on installing inter-array power cables for use in offshore wind farms and in the offshore wind market. In this high growth, high margin market, Global Marine has a strong presence in Asia, especially China. Global Marine entered into a non-compete agreement in connection with the sale of a subsidiary to Prysmian in 2011, and Global Marine expects to re-enter the offshore power market upon the expiration of the non-compete agreement in November 2015. Given that renewable energy production is predicted to grow over the next decade, with a substantial proportion of that energy to be harvested offshore, Global Marine is well positioned to capitalize on this anticipated growth of offshore alternative energy.

Global Marine's highly experienced management team led by chief executive officer Ian Douglas and chief financial officer Bill Donaldson have created a business strategy to provide leading services to its long-term telecommunications customers and to continue to grow its oil & gas and offshore power businesses. Management believes there are significant barriers to entry across all of its businesses given the high capital cost and Global Marine's long-term relationships with key customers in the maintenance business. Global Marine's long-term relationships provide barriers not only via longevity, but also via developed, efficient infrastructure (including strategically located cable terminals) providing Global Marine with competitive advantages in winning additional maintenance contracts.

For the last twelve months ended June 30, 2014, Global Marine's revenue was geographically diversified across the U.K. (36%), Europe, the Middle East, and Africa (6%), Asia Pacific (23%) and the Americas (35%). For the last twelve months ended June 30, 2014, Global Marine had revenues of \$170.1 million and Adjusted EBITDA of \$47.3 million.

#### *Strategy Overview*

Global Marine is a leading independent operator in the subsea cable installation and maintenance markets. Global Marine aims to maintain its leading market position in the telecommunications maintenance segment and will look for opportunities to grow the installation activities in the three main segments of the market and installation in the telecommunications sector while capitalizing on high market growth in the oil & gas sector through expansion of its installation and maintenance services in that sector. In order to accomplish these goals Global Marine has crafted a comprehensive strategy which includes:

- Re-entering the offshore power market in November 2015 after expiration of the Prysmian non-compete;
  - Diversify the business by pursuing growth within Global Marine's three market segments (telecommunications, oil & gas, and offshore power) which will strengthen Global Marine's quality of earnings and reduce exposure to one particular market segment;
-

- Retain and build its leading position in telecommunications maintenance and installation;
- Exploit high market growth in oil & gas, first in installation, then in maintenance;
- Work to develop convergence of Global Marine's maintenance services across all three market segments; and
- Encourage overall consolidation in the wider subsea cables market by pursuing targeted mergers & acquisitions, joint ventures or partnerships, allowing a larger operating platform and benefitting from increased operating efficiencies.

Global Marine has a highly experienced management team with a proven track record and has demonstrated the ability to enter new markets and generate returns for investors. The senior management team has a combined 70 years of experience within the telecommunications, oil & gas, and offshore power segments.

#### *Fleet Overview*

Global Marine operates one of the largest, specialist cable laying fleets consisting of 7 vessels (5 owned, 2 operated through long-term leases). The average age of Global Marine's owned and operated fleet is 21 years, which is less than the industry average. Each vessel is equipped with specialist inspection, burial, and survey equipment. By providing oil & gas, offshore power, and telecommunications installation as well as telecommunications maintenance, Global Marine can retain vessels throughout their asset lives by cascading them through different uses as they age. This provides a significant competitive advantage as Global Marine can retain vessels for longer and reduce the frequency of capital expenditure requirements with a longer amortization period. Global Marine's fleet has an estimated fair value of \$158 million and are all manned by Global Marine employees or long-term contractors.

#### *Product Research & Development*

Drawing on its long experience in the subsea cable market, over the years Global Marine has provided many important innovations to the subsea cable market. One such innovation was GEOCABLE, Global Marine's proprietary Geographical Information System (GIS), which Global Marine believes to be the largest cable database in the market and was developed specifically to meet the needs of the cable industry. GEOCABLE is an important tool to any vendor planning subsea cable installation and Global Marine sells data from GEOCABLE to third-party customers.

In addition to GEOCABLE, Global Marine also developed and owns intellectual property associated with the Universal Joint in a consortium with other industry participants, a product which easily and effectively links together cables from different manufacturers. The Universal Joint has gained such prevalence in the industry that new fiber optic cables may be certified to the Universal Joint, which is a service provided by Global Marine among others, so that the subsea cable manufacturer can ensure compatibility of their subsea cable with other existing subsea cables and the standardized equipment on board cable repair vessels. Global Marine benefits from its sales of the Universal Joint, and proceeds from Global Marine sponsored training of jointing skills, but Global Marine also enjoys the industry leadership and brand enhancement that come with creation of an industry leading product.

#### *Intellectual Property*

Global Marine is looking to protect its interests in intellectual property and closely monitors industry changes, including GEOCABLE and Universal Joint.

#### *Customers*

Global Marine's customer base is made up primarily of blue-chip companies. Within the two kinds of services provided by Global Marine, maintenance and repair and installation, contract length varies. Maintenance and repair contracts tend to be long-term upon inception (5-7 years), with a relatively high level of expected renewal rates and the customer is typically a consortium of different cable owners such as national telecommunication companies and others who have an owner in the subsea cables covered by the maintenance contract. Global Marine charges a standing fee for cost of vessels in port plus margin, paid in advance proportionally by each member, and an additional daily call out fee for repairs paid by the specific cable owner(s). All four maintenance vessels are engaged on Global Marine's three current long term telecommunications maintenance contracts with ACMA, SEAIOCMA, and NAZ. Installation contracts tend to be much shorter term (30-150 days) and the counter party tends to be a single client. Contracts are typically bid for on a fixed-sum basis with an initial upfront payment plus subsequent installments providing working capital support. Due to

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the added complexity of cable installation as opposed to maintenance, Global Marine generally realizes higher margins on its installation contracts, especially in the oil & gas and offshore power sectors.

#### *Sales and Distributions*

In the telecommunications cable market, cable maintenance is most often accomplished by zone maintenance contracts in which a consortium of telecommunications operators or cable owners contract with a maintenance provider like Global Marine, over a long-term period of around five to six years. Global Marine has three cable maintenance agreements and these are a steady, high-quality source of income for Global Marine. These maintenance contracts are usually re-awarded to incumbent providers unless there are significant performance issues which ultimately may mean that Global Marine likely need not expend extra capital on retaining these contracts. Global Marine constantly has a focused sales plan to build relationships with current and potential customers at regional and corporate offices and readily leverages Huawei Technologies' large sales organization.

#### *Marketing*

In the oil & gas sector, Global Marine has a focused sales and marketing plan to create relationships with major players in the oil & gas industries. In particular, Global Marine hopes to use its expertise in installing PRM systems to forge new contacts with both the end users of PRM services, such as oil majors, and the PRM suppliers themselves. Additionally Global Marine hopes to pursue a strategy of specialization in installing the small power and fiber optic cables that its competitors in the oil & gas and offshore power sectors find unprofitable and lack installation experience in.

In order to aid these plans for expansion, Global Marine plans on increasing its fleet of maintenance and installation vessels anywhere from two to four vessels over the next several years. In particular, Global Marine intends to acquire an installation vessel in 2015, to replace one of its older maintenance vessels in 2016, and purchase both a new remotely operated vehicle ("ROV") in 2017 as well as a new build vessel in 2018, as funded 75/25 through vessel-financing.

#### *Competition*

Global Marine is a leading fleet owner in both the maintenance and installation markets of the telecommunications sector. Global Marine's main competitors include Alcatel Lucent Submarine Networks, Orange Marine, and TE SubCom. In the telecommunications turnkey system installer sector there are four major suppliers that control the market: Alcatel Lucent, HMN, NEC, and TE SubCom. Global Marine's joint venture with Huawei has allowed Global Marine to assert a presence in this sector, and Huawei's commitment of substantial resources to its own research and development shows Huawei aspires to be a market leader in turnkey installations.

In the oil & gas and offshore power sectors, Global Marine currently sees itself as having three major competitors: Deep Ocean, Reef Subsea, and Siem Offshore. Many of Global Marine's competitors in the oil & gas and offshore power sectors provide a wide range of installation and construction services requiring larger vessels with higher operating and capital costs, making economic installation of smaller cables unviable. In addition, competitors focused in the oil & gas and offshore power sectors must replace vessels more frequently and are unable to rotate older assets onto less demanding maintenance and repair contracts. None of our competitors operate in all three of our core markets.

#### *Management and Employees*

In 2013, Global Marine employed 385 people. Global Marine's employees are not formally represented by any labor union or other trade organization although the majority of the seafarers are members of an established trade union. Global Marine considers relations with its employees to be satisfactory and it has never experienced a work stoppage or strike. Global Marine regularly uses independent consultants and contractors to perform various professional services in different areas of the business, including in its exploration and development operations, production operations and certain administrative functions. Dick Fagerstal is a 3% interest holder, chairman and chief executive officer of Global Marine Holdings LLC, the parent holding company of Bridgehouse Marine Limited, and he is executive chairman of Global Marine Systems Limited. Mr. Fagerstal has served in an executive capacity for companies operating in various industries including energy, marine services, and their related infrastructure.

#### *Legal, Environmental and Insurance*

On March 31, 2014, Global Marine settled an arbitration claim with Prysmian for £9.6 million over the purchase price of its former subsidiary GME.

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Global Marine is from time to time subject to other claims and legal proceedings that arise in the ordinary course of business. Such matters are inherently uncertain, and there can be no guarantee that the outcome of any such matter will be decided favorably to Global Marine or that the resolution of any such matter will not have a material adverse effect upon Global Marine's business, consolidated financial position, results of operations or cash flows. Global Marine does not believe that any of such pending claims and legal proceedings will have a material adverse effect on its business, consolidated financial position, results of operations or cash flows.

Global Marine has various kinds of insurance coverage including protection and indemnity, hull and machinery, war risk, and property insurances, directors and officers liability insurance, contract warranty insurance for the maintenance contracts, and all other necessary corporate insurances. Global Marine's liability is capped and insured under each of its installation contracts.

## **Other Businesses and Investments**

### **ICS**

ICS provides domestic and international minute transport and termination services and targets a diverse customer base including Tier 1 international carriers, multi-national carriers, wireless providers, VoIP providers, cable companies and ISPs.

### **Genovel**

Genovel is an early-stage enterprise and does not currently generate revenue. Genovel's prospects are highly dependent on the development of a single product, a new technology for an implant related to treatment of osteoarthritis of the knee, and with no products that have been approved for marketing in the United States or elsewhere. Genovel currently does not have customers or suppliers and does not have material sales, marketing, or distribution operations.

### **ANG**

ANG designs, builds, owns, operates and maintains natural gas fueling stations for vehicle fleets used transportation. ANG's strategy is to make natural gas readily available for commercial and public use in vehicles and to work directly with leading natural gas companies to seek out opportunities for building successful natural gas fueling stations.

### **Novatel Investment**

On September 3, 2014, we also made an investment of \$14.4 million to acquire a 17% equity stake in Novatel Wireless, Inc., a publicly listed company that designs and develops wireless communications technologies.

### **NerVve Technologies Investment**

On October 17, 2014, we acquired a minority interest in NerVve Technologies, known for its leading visual search engine, the NerVve Visual Search Solution, through the purchase of \$5 million in Series A-Preferred Stock.

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## Recent Divestitures

Historically, we operated a network of direct routes and provided premium voice communication services for national telecommunications, operators, mobile operators, wholesale carriers, prepaid operators, Voice over Internet Protocol ("VoIP") service operators and Internet service providers ("ISPs"). We classified these services into two categories: Traditional Services and International Carrier Services ("ICS"). We provided these services from our two business units: North America Telecom ("NAT") and ICS.

In the second quarter of 2013, we entered into a definitive purchase agreement to sell our NAT business for approximately \$129 million. On July 31, 2013, we completed the initial closing of the sale of substantially all of our NAT business. The closing of the sale of the remainder of our NAT business, consisting of our subsidiary Primus Telecommunications, Inc. ("PTI"), was deferred pending the receipt of regulatory approvals. On July 31, 2014, having received the necessary regulatory approvals for PTI, we completed the divestiture of the remainder of our NAT business. We recorded a \$13.8 million gain from the sale of the NAT business for the year ended December 31, 2013.

During 2013, we also provided certain growth services through our BLACKIRON Data business unit, which operated our pure data center operations in Canada. On April 17, 2013, we completed the sale of our BLACKIRON Data business for approximately \$195.6 million (CAD\$200.0 million). We recorded a \$135.0 million gain from the sale of BLACKIRON Data during the second quarter of 2013.

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## Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders  
Schuff International, Inc.  
Phoenix, Arizona

We have reviewed the condensed consolidated balance sheet of Schuff International, Inc. and subsidiaries as of June 29, 2014, and the related condensed consolidated statements of income for the six-month periods ended June 29, 2014 and June 30, 2013, stockholders' equity for the six-month period ended June 29, 2014, and cash flows for the six-month periods ended June 29, 2014 and June 30, 2013. These interim financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

/s/ BDO USA, LLP

Phoenix, Arizona

October 23, 2014

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**SCHUFF INTERNATIONAL, INC.**  
**CONSOLIDATED BALANCE SHEET (UNAUDITED)**

**June 29**  
**2014**

*(in thousands, except for share data)*

<b>Assets</b>	
Current assets	
Cash and cash equivalents	\$ 989
Receivables	121,268
Income tax receivable	106
Costs and recognized earnings in excess of billings on uncompleted contracts	25,737
Inventories	16,991
Deferred tax asset	1,707
Prepaid expenses and other current assets	984
Assets held for sale	3,595
Assets of discontinued operations	827
Total current assets	172,204
Property, plant and equipment, net	
	70,923
Goodwill	10,054
Other assets	1,067
Assets of discontinued operations	299
	<u>\$ 254,547</u>
<b>Liabilities and stockholders' equity</b>	
Current liabilities	
Accounts payable	\$ 42,889
Accrued payroll and employee benefits	12,476
Accrued interest	74
Other current liabilities	6,857
Billings in excess of costs and recognized earnings on uncompleted contracts	58,218
Current portion of long-term debt	11,314
Liabilities of discontinued operations	708
Total current liabilities	132,536
Long-term debt	
	4,323
Deferred tax liability	6,517
Other liabilities	436
Liabilities of discontinued operations	27
	<u>11,303</u>
Commitments and Contingencies (Note 9)	
	—
Schuff International stockholders' equity	
Preferred stock, \$.001 par value – authorized 1,000,000 shares, none issued	—
Common stock, \$.001 par value – 20,000,000 shares authorized, 10,038,707 shares issued in 2014 and 3,930,346 shares outstanding in 2014	10
Additional paid-in capital	49,246
Retained earnings	141,536
Treasury stock – 6,108,361 shares in 2014, at cost	(84,498)
Total Schuff International stockholders' equity	106,294
Non-controlling interest	4,414
Total stockholders' equity	110,708
	<u>\$ 254,547</u>

See accompanying review report and notes to condensed consolidated interim financial statements.

**SCHUFF INTERNATIONAL, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)**

	Six months ended	
	June 29 2014	June 30 2013
	<i>(in thousands, except per share data)</i>	
Revenues	\$ 232,149	\$ 187,590
Cost of revenues	192,487	161,348
Gross profit	39,662	26,242
General and administrative expenses	24,147	19,167
Operating income	15,515	7,075
Interest expense	(1,127)	(2,093)
Other income	1,122	130
Income before income tax provision	15,510	5,112
Income tax provision	5,539	1,975
Income before non-controlling interest	9,971	3,137
Non-controlling interest	(107)	(58)
Income from continuing operations	9,864	3,079
(Loss) income from discontinued operations, net of tax	(15)	67
Net income	<u>\$ 9,849</u>	<u>\$ 3,146</u>
Income from continuing operations per common share:		
Basic	<u>\$ 2.36</u>	<u>\$ 0.73</u>
Diluted	<u>\$ 2.36</u>	<u>\$ 0.73</u>
(Loss) income from discontinued operations per common share:		
Basic	<u>\$ —</u>	<u>\$ 0.02</u>
Diluted	<u>\$ —</u>	<u>\$ 0.02</u>
Income per common share:		
Basic	<u>\$ 2.36</u>	<u>\$ 0.75</u>
Diluted	<u>\$ 2.36</u>	<u>\$ 0.75</u>
Weighted average shares used in computation:		
Basic	<u>4,174</u>	<u>4,181</u>
Diluted	<u>4,174</u>	<u>4,189</u>

See accompanying review report and notes to condensed consolidated interim financial statements.

**SCHUFF INTERNATIONAL, INC.**  
**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)**

	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock	Non- controlling Interest	Total
	Shares	Amount					
	<i>(in thousands)</i>						
Balance at December 30, 2013	4,203	\$ 10	\$ 49,224	\$ 131,687	\$ (76,946)	\$ 4,307	\$ 108,282
Net income	—	—	—	9,849	—	—	9,849
Stock awards	2	—	22	—	26	—	48
Minority interest in income	—	—	—	—	—	107	107
Purchase of treasury stock	(275)	—	—	—	(7,578)	—	(7,578)
Balance at June 29, 2014	<u>3,930</u>	<u>\$ 10</u>	<u>\$ 49,246</u>	<u>\$ 141,536</u>	<u>\$ (84,498)</u>	<u>\$ 4,414</u>	<u>\$ 110,708</u>

See accompanying review report and notes to condensed consolidated interim financial statements.

**SCHUFF INTERNATIONAL, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

	Six months ended	
	June 29 2014	June 30 2013
	(in thousands)	
<b>Operating Activities</b>		
Income from continuing operations	\$ 9,864	\$ 3,079
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	3,808	4,121
Loss from extinguishment of debt	160	—
Loss on disposals of property, plant and equipment	52	28
Loss on assets held for sale	447	—
Gain on disposal of long-term investment	(435)	—
Loss on disposal of assets not placed in service	609	—
Non-controlling interest	107	58
Stock awards	48	—
Compensation expense - restricted stock grant	—	240
Changes in working capital components:		
Receivables	(14,648)	4,819
Costs and recognized earnings in excess of billings on uncompleted contracts	(4,906)	(446)
Inventories	(5,434)	1,187
Prepaid expenses and other current assets	415	583
Accounts payable	(7,012)	(2,799)
Accrued payroll and employee benefits	5,078	2,345
Accrued interest	(16)	(508)
Other current liabilities	1,950	781
Billings in excess of costs and recognized earnings on uncompleted contracts	19,634	(2,684)
Income taxes receivable/payable	122	(678)
Other liabilities	(220)	(243)
Net cash provided by operating activities	<u>9,623</u>	<u>9,883</u>
<b>Investing activities</b>		
Acquisitions of property, plant and equipment	(9,090)	(7,499)
Proceeds from disposals of property, plant and equipment	13	2
Decrease in other assets	1,122	243
Net cash used in investing activities	<u>(7,955)</u>	<u>(7,254)</u>
<b>Financing activities</b>		
Proceeds from revolving line of credit and long-term borrowings	241,014	209,662
Principal payments on revolving line of credit and long-term debt	(237,207)	(218,073)
Proceeds from exercise of stock options and stock purchase plan	—	24
Payment of debt issuance costs	(78)	—
Purchase of treasury stock	(5,429)	—
Net cash used in financing activities	<u>(1,700)</u>	<u>(8,387)</u>
<b>Discontinued operations</b>		
Net cash (used in) provided by operating activities	(46)	5,157
Net cash provided by financing activities	—	2,801
Net cash (used in) provided by discontinued operations	<u>(46)</u>	<u>7,958</u>
(Decrease) increase in cash and cash equivalents	(78)	2,200
Cash and cash equivalents at beginning of period	1,067	8,804
Cash and cash equivalents at end of period	<u>\$ 989</u>	<u>\$ 11,004</u>
<b>Supplemental schedule of non-cash investing and financing activities:</b>		
Acquisition of treasury stock and disposal of long-term investment	<u>\$ (1,714)</u>	<u>\$ —</u>

See accompanying review report and notes to condensed consolidated interim financial statements.

**SCHUFF INTERNATIONAL, INC.**  
**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**SIX MONTHS ENDED JUNE 29, 2014 AND JUNE 30, 2013**

**1. Interim Financial Statements**

*Nature of Business*

Schuff International, Inc. and its wholly-owned subsidiaries ("Schuff" or the "Company") are primarily steel fabrication and erection contractors with headquarters in Phoenix, Arizona and operations in Arizona, Florida, Georgia, Texas, Kansas and California. The Company's construction projects are primarily in the aforementioned states. In addition, the Company has construction projects in select international markets, primarily Panama.

*Basis of Presentation*

The accompanying condensed consolidated interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six-month period ended June 29, 2014 are not necessarily indicative of the results that may be expected for the year ending December 28, 2014. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report for the year ended December 29, 2013.

*Recent Events*

On May 29, 2014, HC2 Holdings, Inc. completed its purchase of 2,500,000 shares of the Company's common stock from SAS Venture LLC and Scott A. Schuff at a purchase price of \$31.50 per share. The purchase of the shares represents approximately 60% of the Company's outstanding stock as of the date of purchase.

*Fiscal Year*

The Company uses a 4-4-5 week quarterly cycle ending on the Sunday closest to December 31. Fiscal 2014 will cover the period from December 30, 2013 to December 28, 2014 (hereinafter 2014). Fiscal 2013 covered the period from December 31, 2012 to December 29, 2013 (hereinafter 2013).

*Revenue and Cost Recognition*

The Company performs its services primarily under fixed-price contracts and recognizes revenues and costs from construction projects using the percentage of completion method. Under this method, revenue is recognized based upon either the ratio of the costs incurred to date to the total estimated costs to complete the project or the ratio of tons fabricated to date to total estimated tons. Revenue recognition begins when work has commenced. Costs include all direct material and labor costs related to contract performance, subcontractor costs, indirect labor, and fabrication plant overhead costs, which are charged to contract costs as incurred. Revenues relating to changes in the scope of a contract are recognized when the work has commenced, the Company has made an estimate of the amount that is probable of being paid for the change and there is a high degree of probability that the charges will be approved by the customer or general contractor. While the Company has been successful in having the majority of its change orders approved in prior years, there is no guarantee that the majority of unapproved change orders at June 29, 2014 will be approved. Revisions in estimates during the course of contract work are reflected in the accounting period in which the facts requiring the revision become known. Provisions for estimated losses on uncompleted contracts are made in the period a loss on a contract becomes determinable.

Construction contracts with customers generally provide that billings are to be made monthly in amounts which are commensurate with the extent of performance under the contracts. Contract receivables arise principally from the balance of amounts due on progress billings on jobs under construction. Retentions on contract receivables are amounts due on progress billings, which are withheld until the completed project has been accepted by the customer.

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**SCHUFF INTERNATIONAL, INC.**  
**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**SIX MONTHS ENDED JUNE 29, 2014 AND JUNE 30, 2013**

Costs and recognized earnings in excess of billings on uncompleted contracts primarily represent revenue earned under the percentage of completion method which has not been billed. Billings in excess of related costs and recognized earnings on uncompleted contracts represent amounts billed on contracts in excess of the revenue allowed to be recognized under the percentage of completion method on those contracts.

*Income Taxes*

The Company recognizes deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement carrying amounts and the tax bases of assets and liabilities. Deferred tax assets are recognized, net of any valuation allowance, for deductible temporary differences and net operating loss and tax credit carry forwards. The Company regularly evaluates the realizability of its deferred tax assets by assessing its forecasts of future taxable income and reviewing available tax planning strategies that could be implemented to realize the deferred tax assets. Based on this evaluation, it was determined that realization of the deferred tax assets is more likely than not.

**2. Discontinued Operations**

On April 26, 2013, the Company entered into an agreement with Canam Steel Corporation ("Canam") to sell Canam substantially all of the assets of the Company's subsidiary, Quincy Joist Company. Under the agreement, the assets included the joist plant in Buckeye, Arizona ("Arizona"), including all equipment and inventory and the joist plant (excluding the land) in Quincy, Florida ("Florida"), including all equipment and inventory. The sale of the Arizona assets was completed on June 1, 2013 and the sale of the Florida assets was completed on July 10, 2013.

**3. Stock-Based Compensation**

The Company recognizes compensation expense for all share-based payment awards made to employees and directors based on estimated fair values. Fair value of the restricted stock units awarded is based on the current traded price of the Company's stock. Restricted stock grants ("Grants") vested over three or five years. The Grants provided for accelerated vesting if there is a change in control (as defined in the agreements). As of June 29, 2014, there were no restricted stock grants with nonvested shares outstanding. All restricted stock grants were fully vested during the year ended December 29, 2013.

There was no compensation cost charged against income for the Grants for the six months ending June 29, 2014. The compensation cost that has been charged against income for the Grants was \$240,000 for the six months ending June 30, 2013.

**4. Receivables and Contracts in Progress**

Receivables consist of the following:

	<b>June 29 2014</b>
	<i>(in thousands)</i>
Contract receivables:	
Contracts in progress	\$ 87,859
Unbilled retentions	33,099
Allowance for doubtful accounts	(18)
	<u>120,940</u>
Other receivables	328
	<u>\$ 121,268</u>

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**SCHUFF INTERNATIONAL, INC.**  
**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**SIX MONTHS ENDED JUNE 29, 2014 AND JUNE 30, 2013**

**5. Inventories**

Inventories consist of the following:

	<b>June 29 2014</b>
	<i>(in thousands)</i>
Raw materials	\$ 16,502
Work in process	298
Finished goods	191
	<u>\$ 16,991</u>

**6. Accounts Payable**

Accounts payable consists of the following at:

	<b>June 29 2014</b>
	<i>(in thousands)</i>
Accounts payable	\$ 39,199
Retentions payable	3,690
	<u>\$ 42,889</u>

**7. Long-Term Debt and Line of Credit**

The Company has a Credit and Security Agreement ("Credit Facility") with Wells Fargo Credit, Inc. ("Wells Fargo"). On May 6, 2014, the Company amended its Credit Facility, pursuant to which Wells Fargo extended the maturity date of the Credit Facility to April 30, 2019, lowered the interest rate charged in connection with borrowings under the line of credit and allowed for the issuance of a note payable totaling \$5,000,000, collateralized by its real estate ("Real Estate Term Advance"). The Real Estate Term Advance has a 5 year amortization period requiring monthly principal payments and a final balloon payment at maturity. The Real Estate Term Advance has a floating interest rate of LIBOR plus 4.0% and requires monthly interest payments. The proceeds of the Real Estate Term Advance, in conjunction with cash generated from operations and borrowings under the Credit Facility, were used to pay the remaining balance of the previous real estate term loan issued under the Credit Facility.

The Company also has a Line of Credit Agreement ("International LOC") with Banco General, S.A. in Panama.

At June 29, 2014, the Company had \$10,689,000 of borrowings and \$3,902,000 of outstanding letters of credit issued under its Credit Facility. There was \$35,409,000 available under the Company's Credit Facility at June 29, 2014. At June 29, 2014, the Company had no borrowings and no outstanding letters of credit issued under its International LOC. There was \$3,500,000 available under the Company's International LOC at June 29, 2014.

The Credit Facility is secured by a first priority, perfected security interest in all of the Company's assets, excluding the real estate, and its present and future subsidiaries and a second priority, perfected security interest in all of the Company's real estate. The security agreements pursuant to which the Company's assets are pledged prohibit any further pledge of such assets without the written consent of the bank. The Credit Facility has a floating interest rate of LIBOR

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**SCHUFF INTERNATIONAL, INC.**  
**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**SIX MONTHS ENDED JUNE 29, 2014 AND JUNE 30, 2013**

plus 3.00% (3.23% at June 29, 2014) and requires monthly interest payments. The Credit Facility contains various restrictive covenants. At June 29, 2014, the Company was in compliance with these covenants.

The International LOC is secured by a first priority, perfected security interest in Schuff Hopsa Engineering's ("SHE") property and plant. The interest rate is 5.25% plus 1% of the special interest compensation fund ("FECI"). The International LOC contains covenants that, among other things, limit SHE's ability to incur additional indebtedness, change its business, merge, consolidate or dissolve and sell, lease, exchange or otherwise dispose of its assets, without prior written notice.

**8. Income Per Share**

The following table sets forth the computation of basic and diluted income per share:

	<b>Six Months Ended</b>	
	<b>June 29 2014</b>	<b>June 30 2013</b>
	<i>(in thousands except per share data)</i>	
Income from continuing operations	\$ 9,864	\$ 3,079
(Loss) income from discontinued operations	(15)	67
Net income	<u>\$ 9,849</u>	<u>\$ 3,146</u>
Denominator for basic income per share		
- weighted average shares	4,174	4,181
Effect of dilutive securities:		
Unvested restricted stock grants	—	8
Denominator for diluted income per share		
- adjusted weighted average shares and assumed conversions	<u>4,174</u>	<u>4,189</u>
<b>Basic EPS</b>		
Income per share from continuing operations	<u>\$ 2.36</u>	<u>\$ 0.73</u>
(Loss) income per share from discontinued operations	<u>\$ —</u>	<u>\$ 0.02</u>
Income per share	<u>\$ 2.36</u>	<u>\$ 0.75</u>
<b>Diluted EPS</b>		
Income per share from continuing operations	<u>\$ 2.36</u>	<u>\$ 0.73</u>
(Loss) income per share from discontinued operations	<u>\$ —</u>	<u>\$ 0.02</u>
Income per share	<u>\$ 2.36</u>	<u>\$ 0.75</u>

**9. Contingent Matters**

The Company is currently and from time to time involved through the ordinary course of business in certain claims, litigation, and assessments. Due to the nature of the construction industry, the Company's employees from time to time become subject to injury, or even death, while employed by the Company. The Company does not believe any new material contingencies arose during the six months ended June 29, 2014.



**SCHUFF INTERNATIONAL, INC.**  
**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**SIX MONTHS ENDED JUNE 29, 2014 AND JUNE 30, 2013**

**10. Comprehensive Income**

Total comprehensive income for the six months ended June 29, 2014 and June 30, 2013 equaled net income for the corresponding periods.

**11. Backlog**

The Company's backlog was \$386,947,000 (\$366,913,000 under contracts or purchase orders and \$20,034,000 under letters of intent) at June 29, 2014. The Company's backlog can be significantly affected by the receipt, or loss, of individual contracts. Approximately \$208,219,000, representing 53.8% of the Company's backlog at June 29, 2014, was attributable to five contracts, letters of intent, notices to proceed or purchase orders. If one or more large contracts are terminated or their scope reduced, the Company's backlog could decrease substantially.

**12. Subsequent Events**

The Company has evaluated subsequent events through October 24, 2014, which is the date the condensed consolidated interim financial statements were available to be issued.

On October 21, 2014, the Credit Facility was amended to allow for a new \$15,000,000 term loan to be used for equipment financing and working capital requirements related to a recent project award. The new term loan has a five-year amortization period with terms substantially similar to the Real Estate Term Advance. The amendment also reduces the restrictions on dividend payments to shareholders of the Company.

In early October 2014, the Company entered into commitments to purchase approximately \$9,300,000 of machinery and equipment from various vendors. The purchases of the machinery and equipment will be funded using the proceeds of the new term loan under the Credit Facility, described above.

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**Bridgehouse Marine Limited**  
**Strategic report for the year ended 31 December 2013**

The group's principal subsidiary, Global Marine Systems Limited, is a leading provider of engineering and underwater services, responding to the subsea cable installation, maintenance and burial requirements of its customers around the world. With a fleet of vessels and specialised subsea trenching and burial equipment, the company brings a 160 year legacy in deep and shallow water operations.

Global Marine Systems Limited offers cost effective solutions with consistently high service and quality standards for its customers in the markets in which they operate. The Company is headquartered in the United Kingdom, with resources throughout Europe, Asia Pacific and the Americas.

**Results and dividends**

Turnover of the Group has decreased by £30.3m from £129.3m in 2012 to £99.0m in 2013, although it has decreased by only £3.3m on a like-for-like basis after stripping out discontinued activities. The operating losses of £5.2m in 2012 have now moved to a profit of £10.5m. The greatly improved management of the project risks within our contracts in 2013 along with the sale of Global Marine Systems Energy Limited on 15<sup>th</sup> November 2012 has resulted in strong results for 2013 and much greater stability in the continuing operations of the business. No dividend is proposed for 2013 (2012: £ Nil).

The loss on sale of investments disclosed under discontinued operations of £8.5m relates to a final determination of the selling price on the disposal of Global Marine Systems Energy Limited in 2012, details of which are disclosed in notes 19 and 26 of these financial statements.

Group operating profit of £10.2m is after providing £4.3m against the recovery of a loan made to a related company, Bridgehouse Capital Operations Limited, see note 25.

The statement of total recognised gains and losses includes a loss on exchange of £0.7m (2012: loss of £0.9m) in respect of the retranslation of assets, liabilities and investments held in foreign currencies.

**Review of business and future developments**

The stable and sustainable revenue stream that the Group has established in Telecommunications maintenance and vessel chartering allows it to build for further growth in the telecommunications and oil & gas markets, both directly and via its established partnerships with Sino-British Submarine Systems and Huawei Technologies.

	2013	2012
	£'000	£'000
Group operating profit / (loss)	10,233	(5,193)
Exceptional items – contract losses	—	10,375
– provision against related party loan	4,250	—
Group operating profit excluding exceptional items	14,483	5,182

**Key Performance Indicators (KPIs)**

	2013 Result	2012 Result
<b>Financial KPIs</b>		
Adjusted EBITDA	£30.5 million	£24.8 million
Cash (usage) / generation	£(3.8) million	£18.9 million
Return on investment – Adjusted EBITA	17.2%	0.4%
<b>Non-Financial KPIs</b>		
Lost Time Injury Frequency Rate (LTIFR)	1.64	0.30

## Bridgehouse Marine Limited

### Strategic report for the year ended 31 December 2013(continued)

#### **Adjusted Earnings before interest, tax, depreciation and amortisation (EBITDA)**

Adjusted EBITDA has been calculated as profit / (loss) on ordinary activities before interest, tax, depreciation, amortisation, exchange movements, impairment of fixed assets and gain / loss on disposal of assets and investments. It is measured before adjusting for operating exceptional items. During 2013 adjusted EBITDA has increased by £1.7m.

#### **Cash generation / reduction**

Cash generation is defined as the difference in opening and closing cash balances. In 2013, the cash balance has decreased by £3.8m due primarily to short term secured loans of £14.5m advanced in the year which were fully repaid in February 2014.

#### **Returns on investment**

Return on investment – is defined as % of earnings before interest, tax, amortisation, exchange movements, impairment of fixed assets and gain / loss on disposal of assets and investments (“EBITA”) divided by average capital employed. Adjusted EBITA has been calculated as profit / (loss) on ordinary activities before interest, tax, amortisation, exchange movements, impairment of fixed assets and gain / loss on disposal of assets and investments. During 2013, the return on investment has increased by an impressive 17.1 percentage points.

#### **Non-financial KPIs**

##### **Lost time injury frequency rate (LTIFR)**

Health and safety is paramount in our business. Not only is it vitally important to provide employees with a safe place to work, but also any accident is disruptive to the running of the business.

The Group continually reviews and reports all accidents and injuries and in order to benchmark its safety performance against other companies in the industry, the Group reports safety statistics as adopted by the International Marine Contractors Association, of which the Group is a member.

The LTIFR is measured as; 
$$\frac{\text{Lost time injuries} \times 1,000,000}{\text{Hours Worked}}$$

Lost time injuries are defined as:

“An accident or injury that prevents a person conducting their normal job from the day following the accident for a period of more than 3 days”.

The LTIFR was 1.64 in 2013 which was below the recognised industry benchmark of 1.04 and is now one of the main focuses of the Safety Performance Committee. Due to the new procedures introduced in prior years, more incidents are now being reported and these incidents continue to provide lessons to be learned which will in turn prevent further incidents and accidents from occurring.

#### **Principal risks and uncertainties**

The principal business risk acknowledged by the Group is the impact of any reduced demand in the global market for subsea related services. However, Global Marine Systems Limited is well positioned in the telecommunications maintenance market with three long term contracts for at least another 3-4 years which will offset any potential volatility encountered in the installation market. Two vessels have also been adapted to address the Offshore Power market to which they are currently on charter and the Group continues to seek further opportunities in other high growth markets. The Directors are confident that there are sufficient opportunities for growth in the telecommunications and oil & gas markets.

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**Bridgehouse Marine Limited**  
**Strategic report for the year ended 31 December 2013(continued)**

**Financial risk management**

The Group's operations expose it to a variety of financial risks that include foreign exchange rate risk, liquidity risk, and credit risk. The Group has in place a risk management process that seeks to limit the adverse effects of these risks on the financial performance of the Group.

***Foreign exchange rate risk***

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar, the Euro and the Singapore Dollar. Foreign exchange risk arises from current commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The Group manages these risks in a number of ways but primarily by attempting to match assets and liabilities and income and costs denominated in the relevant foreign currencies. As and when surplus funds are generated in foreign currencies they are sold in the spot market. The Group monitors this risk on a regular basis.

***Liquidity Risk***

As with all businesses a key risk to the business is liquidity. The Group maintains medium term debt finance secured on a number of its cable-ships, which, together with cash generated from operations, provide sufficient available funds for future expansion and investment.

***Credit Risk***

Credit risk is the potential loss arising from any failure by the customers or debtors to fulfil their obligations as and when these obligations fall due. The Group has implemented policies that require appropriate credit checks on potential customers before sales are made. All cash and deposits are placed with reputable "High street" financial institutions. The Group has no significant concentration of credit risk.

On behalf of the board



Dawna Stickier  
**Director**

Date: 17 June 2014

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**Bridgehouse Marine Limited**  
**Directors' report for the year ended 31 December 2013**

The directors present their annual report on the affairs of Bridgehouse Marine Limited ("the Group" and "the company") registered number 04352407, together with the audited consolidated financial statements for the year ended 31 December 2013.

**Going Concern**

Having reviewed the Group's cash flow projections for the next 12 months after the date of signing the financial statements, the directors are confident they will have adequate resources to meet the requirements of the business for the foreseeable future. The directors have therefore prepared these consolidated financial statements on a going concern basis.

**Quality systems and environment responsibilities**

The Group continues to demonstrate its commitment to quality management and the environment by gaining recertification to ISO18001, ISO9001 and ESN 14001 during the year. We also retained the RoSPA Presidents Award for the 14<sup>th</sup> consecutive year.

**Research and development**

Technical development is an important part of upgrading and improving techniques for cable laying, cable jointing, cable protection and most recently the efficient transmission of Subsea telecommunication data. The Group remains committed to these principles in all that it does and is continually developing new technology in-house and with its partners.

**Directors**

The directors who held office during the year and up to the date of these financial statements were as follows:

Dawna Stickler (appointed 27 March 2014)

Sinead Irving (appointed 27 March 2014)

Gabriel Marlin Ruhan (resigned 27 March 2014)

Stephen Derrick Scott (resigned 27 March 2014)

Simon John McNally (reappointed 4 December 2013, resigned 27 March 2014)

Simon Nicholas Cooper (reappointed 4 December 2013, resigned 27 March 2014)

**Directors' Indemnities**

Qualifying third party indemnity provisions (as defined by Section 236 Companies Act 2006) for the benefit of the directors were maintained throughout the year and remain in force as at the date of approving the Directors' report.

**Employees**

The Group is committed to employment policies, which follow best practice, based on equal opportunities for all employees, irrespective of sex, race, colour, disability or marital status.

Applications for employment by disabled persons are always considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of a member of staff becoming disabled, every effort is made to ensure that their employment with the company continues and the appropriate training is arranged. It is the policy of the

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## **Bridgehouse Marine Limited**

### **Directors' report for the year ended 31 December 2013(continued)**

company that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

The Group is also committed to providing employees with information on matters of concern to them on a regular basis, so that the views of employees can be taken into account when making decisions that are likely to affect their interests. The Group encourages the involvement of employees by means of regular updates issued by the board on key company issues, financial information and other statistics. Quarterly surveys are also co-ordinated by the Group to obtain employee feedback on issues within the Group.

#### **Elective regime**

The Group has passed elective resolutions in accordance with Section 379A of the Companies Act 1985 as amended ("the Act") to dispense with the formalities of:

- the laying of financial statements before the Group in general meeting (Section 252 of the Act),
- the holding of annual general meetings (Section 366A of the Act), and
- the obligation to appoint auditors annually (Section 386 of the Act).

Section 253(2) gives members the right to require the laying of financial statements before the group in general meeting. To exercise such right, a member must give notice in writing to that effect, deposited at the, registered office of the Group, within 28 days of the day on which the report and financial statements are sent out, in accordance with Section 238(1) of the Act.

#### **Statement of directors' responsibilities**

The directors are responsible for preparing the directors report, strategic 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 Group and parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (Accounting Standards and applicable law). 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 Group and the company and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume 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 the Group 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 the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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**Bridgehouse Marine Limited**

**Directors' report for the year ended 31 December 2013(continued)**

**Statement of disclosure of information to auditors**

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

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

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

**Independent auditors**

BDO LLP was appointed as auditors by the directors during the period and they have expressed their willingness to continue in office.

On behalf of the board

A handwritten signature in black ink, consisting of a large, stylized 'D' followed by a horizontal line extending to the right.

Dawna Stickler  
**Director**

Date: 17 June 2014

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**Bridgehouse Marine Limited**  
**Independent auditors report to the members of Bridgehouse Marine Limited**

We have audited the financial statements of Bridgehouse Marine Limited for the year ended 31 December 2013 which comprise the Group profit and loss account, the Group statement of total recognised gains and losses, the Group note on historical cost profits and losses, the Group and Company balance sheets, the Group cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

**Respective responsibilities of directors and auditors**

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

**Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the FRC's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

**Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2013 and of the group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

**Opinion on other matters prescribed by the Companies Act 2006**

In our opinion 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.

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

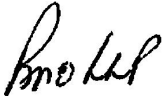
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
  - the parent company financial statements are not in agreement with the accounting records and returns; or
-



**Bridgehouse Marine Limited**

**Independent auditors report to the members of Bridgehouse Marine Limited(continued)**

- 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.



Raymond Adams (Senior statutory auditor)  
For and on behalf of BDO LLP, statutory auditor  
Ipswich

17/6/14

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

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**Bridgehouse Marine Limited** Group balance sheet as at 31 December 2013  
**Company Number 04352407**

	Note	£'000	2013 £'000	£'000	As restated 2012 £'000
<b>Fixed assets</b>					
Intangibles					
Negative goodwill	12		(11,435)		(12,815)
Tangible assets	13		101,863		104,244
Investments in joint ventures					
Share of gross assets	14	15,345		17,438	
Share of gross liabilities	14	(371)		(266)	
			14,974		17,172
Investment in associates	14	31,693		30,680	
Other investments	14	—		60	
Fixed asset investments	14		46,667		47,912
			137,095		139,341
<b>Current assets</b>					
Stocks	15	5,865		4,256	
Debtors: amounts falling due within one year	16	48,627		43,231	
Debtors: amounts falling due after more than one year	16	4,555		4,614	
Cash at bank and in hand		25,983		29,767	
			85,030		81,868
Creditors: amounts falling due within one year	17	(47,242)		(31,081)	
<b>Net current assets</b>			37,788		50,787
<b>Total assets less current liabilities</b>			174,883		190,128
Creditors: amounts falling due after more than one year	18		(41,190)		(62,173)
Provisions for liabilities	19		(19,285)		(11,037)
<b>Net assets excluding pension liability</b>			114,408		116,918
Pension liability	24		(31,093)		(25,602)
<b>Net assets Including pension liability</b>			83,315		91,316
<b>Capital and reserves</b>					
Called up share capital	20		1,266		1,266
Revaluation reserve	21		32,431		35,763
Profit and loss account	21		39,740		43,864
<b>Total shareholders' funds</b>	22		73,437		80,893
Minority interest			9,878		10,423
			83,515		91,316

The financial statements on pages 9 to 44 were approved by the board of directors and authorised for issue on 17 June 2014 and signed on its behalf by:



Dawna Stickler  
**Director**

**Bridgehouse Marine Limited Company balance sheet as at 31 December 2013 Company Number 04352407**

	<i>Note</i>	<i>£'000</i>	<u>2013</u> <u>£'000</u>	<i>£'000</i>	<u>2012</u> <u>£'000</u>
<b>Fixed assets</b>					
Investments	14		1,271		1,271
			<u>1,271</u>		<u>1,271</u>
<b>Current assets</b>					
Debtors: amounts falling due within one year			—		—
Creditors: amounts falling due within one year	17	(4,000)		(69)	
<b>Net current liabilities</b>			<u>(4,000)</u>		<u>(69)</u>
<b>Net (liabilities) / assets</b>			<u>(2,729)</u>		<u>1,202</u>
<b>Capital and reserves</b>					
Called up share capital	20		1,266		1,266
Profit and loss account	21		(3,995)		(64)
<b>Shareholders' funds</b>	22		<u>(2,729)</u>		<u>1,202</u>

The financial statements on pages 9 to 44 were approved by the board of directors and authorised for issue on 17 June 2014 and signed on its behalf by:



Dawna Stickler  
Director



**Bridgehouse Marine Limited**  
**Group profit and loss account for the year ended 31 December 2013**

	Note	Continuing Operations 2013 £'000	Discontinued operations 2013 £'000	Total 2013 £'000	Total As restated 2012 £'000
<b>Turnover (including share of joint ventures and associates)</b>		<b>144,029</b>	<b>—</b>	<b>144,029</b>	186,688
Less: share of joint ventures' turnover		(894)	—	(894)	(643)
share of associates' turnover		(44,131)	—	(44,131)	(56,774)
<b>Group turnover</b>	4	<b>99,004</b>	<b>—</b>	<b>99,004</b>	129,271
Other operating (charges) / credits		(2,107)	—	(2,107)	(2,940)
Other operating costs	5	(82,414)	—	(82,414)	(121,149)
Exceptional items	5	(4,250)	—	(4,250)	(10,375)
Operating costs		(88,771)	—	(88,771)	(134,464)
<b>Group operating profit / (loss)</b>	6	<b>10,233</b>	<b>—</b>	<b>10,233</b>	(5,193)
Share of joint ventures' operating profit		188	—	188	114
Share of associates' operating profit		3,166	—	3,166	4,387
Profit on sale of tangible fixed assets		40	—	40	660
(Loss) / profit on sale of investments	26	—	(8,462)	(8,462)	4,228
Interest receivable and similar income	9				
- Group		1,193	—	1,193	77
- Joint ventures		525	—	525	604
- Associates		51	—	51	61
		1,769	—	1,769	742
Interest payable and similar charges	10				
- Group – Interest payable		(4,771)	—	(4,771)	(5,652)
– Exchange loss		913	—	913	(346)
- Joint ventures		—	—	—	(4)
- Associates		(673)	—	(673)	(422)
		(4,531)	—	(4,531)	(6,424)
Other finance credits	24	675	—	675	369
<b>Profit / (loss) on ordinary activities before taxation</b>		<b>11,540</b>	<b>(8,462)</b>	<b>3,078</b>	(1,117)
Tax on profit (loss) on ordinary activities	11				
- Group		(10)	—	(10)	65
- Joint ventures		(20)	—	(20)	(28)
- Associates		(439)	—	(439)	(803)
<b>Profit / (loss) on ordinary activities after taxation</b>		<b>11,071</b>	<b>(8,462)</b>	<b>2,609</b>	(1,883)
Minority interest		(1,362)	846	(516)	337
<b>Profit / (loss) for the financial year</b>	21	<b>9,709</b>	<b>(7,616)</b>	<b>2,093</b>	(1,546)

**Bridgehouse Marine Limited Group statement of total recognised gains and losses for the year ended 31 December 2013**

	<u>2013</u>	<u>As restated</u>
	£'000	2012
		£'000
Profit / (loss) for the financial year		
Group loss for the financial year	(425)	(5,064)
Share of joint ventures' profit for the financial year	624	617
Share of associates' profit for the financial year	1,894	2,901
	<u>2,093</u>	<u>(1,546)</u>
Actuarial loss recognised in pension schemes	(8,745)	(5,146)
Revaluation of fixed assets	—	(5,604)
Exchange adjustments offset in reserves (translation of assets, liabilities and foreign investments)	(698)	(891)
	<u>(7,350)</u>	<u>(13,187)</u>
<b>Total recognised loss for the year</b>	<b>(7,350)</b>	<b>(13,187)</b>
Prior year adjustment		
Recognition of minority Interest	(10,423)	
<b>Total gains and losses recognised since last financial statements</b>	<b>(17,773)</b>	

**Group note on historical cost profits and losses for the year ended 31 December 2013**

	<u>2013</u>	<u>2012</u>
	£'000	£'000
Reported profit / (loss) on ordinary activities before taxation	3,078	(1,117)
Difference between actual and historical cost depreciation charge	3,531	2,917
<b>Historical cost profit on ordinary activities before taxation</b>	<b>6,609</b>	<b>1,800</b>
Taxation	(469)	(766)
<b>Historical cost profit on ordinary activities after taxation</b>	<b>6,140</b>	<b>1,034</b>

**Bridgehouse Marine Limited Group cash flow statement for the year ended 31 December 2013**

	Note	£'000	2013 £'000	£'000	2012 £'000
<b>Reconciliation of operating profit / (loss) to net cash inflow from operating activities</b>					
Operating profit / (loss)		10,233		(5,193)	
Depreciation on tangible fixed assets		11,282		14,057	
Impairment on fixed asset investment		—		518	
Amortisation on intangible assets		(1,380)		(1,495)	
Difference between pension charge and cash contributions		(3,551)		(1,726)	
Provision in respect of short term loans		4,250		—	
Currency translation differences		(358)		946	
(Increase) / decrease in inventories		(1,609)		1,492	
Decrease / (increase) in operating receivables		9,854		(11,806)	
Increase in creditors		1,512		7,301	
Decrease in provisions		(180)		(3,637)	
Loss on sale of investment		186		—	
<b>Net cash inflow from operating activities</b>			<b>30,239</b>		<b>457</b>
<b>Dividends from joint ventures / associates</b>			<b>3,109</b>		<b>23,687</b>
<b>Returns on investment and servicing of finance</b>					
Interest received		184		77	
Interest paid		(4,762)		(5,679)	
<b>Net cash outflow from returns on investment and service of finance</b>			<b>(4,578)</b>		<b>(5,602)</b>
<b>Taxation</b>					
UK taxes paid			(30)		(44)
<b>Capital expenditure and financial investment</b>					
Purchase of plant and equipment		(9,665)		(29,719)	
Proceeds from sale of fixed assets		79		9,448	
Purchase of investment		(126)		(506)	
Short term loan advances		(18,500)		—	
<b>Net cash outflow from capital expenditure and financial investment</b>			<b>(28,212)</b>		<b>(20,777)</b>
<b>Acquisitions and disposals</b>					
Sale of business operations		—		32,367	
Cash disposed of with business operation		—		(537)	
Sale of investment in associated undertaking		—		7,241	
<b>Net cash inflow from acquisitions and disposals</b>			<b>—</b>		<b>39,071</b>
<b>Finance</b>					
Repayment of finance lease capital		(4,195)		(17,883)	
Employee share scheme		(117)		—	
<b>Net cash outflow from financing</b>			<b>(4,312)</b>		<b>(17,883)</b>
<b>Management of liquid resources (Decrease) / increase in cash</b>	29		<b>(3,784)</b>		<b>18,909</b>

## **Bridgehouse Marine Limited**

### **Notes to the financial statements for the year ended 31 December 2013**

#### **1 Accounting policies**

##### **Basis of accounting**

The financial statements are prepared on the going concern basis under the historical cost convention, as modified by the revaluation of cable-ships and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. The principal accounting policies, which have been applied consistently throughout the year, are set out below.

##### **Basis of preparation**

The Group financial statements consolidate the financial statements of the company and its subsidiary undertakings, joint ventures and associate undertakings for the year ended 31 December 2013. Subsidiary undertakings are entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Associate undertakings are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed. The Group's subsidiary undertakings, associated undertakings and joint ventures (together "the Group companies") have adopted uniform accounting policies. Acquisitions are accounted for under the acquisition method. All profits or losses on Intra Group transactions have been eliminated.

The Group's associate undertakings and joint ventures are accounted for in accordance with Financial Reporting Standard No 9 'associates and joint ventures', with associates included using the equity method of consolidation and joint ventures included using the gross equity method of consolidation. The consolidated profit and loss account includes the Group's share of associates' and joint ventures' profits less losses while the Group's share of the net assets of the associates and joint ventures is shown in the consolidated balance sheet. For entities which have non co-terminus year ends, results are consolidated on the basis of management accounts information.

##### **Going Concern**

Having reviewed the Group's cash flow projections for the next 12 months after the date of signing of the financial statements, the directors are confident they will have adequate resources to meet the requirements of the business for the foreseeable future. The directors have therefore prepared these consolidated financial statements on a going concern basis.

##### **Goodwill**

Goodwill arising on an acquisition of a trade/subsidiary undertaking is the difference between the fair value of the consideration paid and the fair value of the assets and liabilities acquired.

Positive goodwill is capitalised and amortised through the profit and loss account over the directors' estimate of its useful economic life. Impairment tests of the carrying of goodwill are undertaken:

- at the end of the full financial year following acquisition,
- in other years if events or changes in circumstances indicate that the carrying value may not be recoverable.

Where the fair value of the assets and liabilities acquired exceeds the fair value of the consideration, the difference is treated as negative goodwill, and is capitalised and amortised through the profit and loss account over the period over which the non-monetary assets acquired are consumed. In the case of fixed assets this is the period over which they are depreciated.

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## **Bridgehouse Marine Limited**

### **Notes to the financial statements for the year ended 31 December 2013(continued)**

#### **Tangible fixed assets**

Tangible fixed assets with the exception of cable-ships are stated at cost, net of depreciation and any provision for impairment. Cable-ships are stated at valuation net of depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Cost includes finance costs incurred prior to the asset being available for use.

Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost less estimated residual value, of each asset on a straight line basis over its estimated useful life as follows:

Cable-ships and submersibles	—	up to 35 years
Plant and Motor vehicles	—	3 to 20 years
Leasehold land and buildings	—	over the period of the lease

Plant includes equipment on the cable-ships that is portable and can be moved around the fleet. Plant also includes computer equipment. The expected useful lives of the assets of the business are reassessed periodically.

Assets under construction are not depreciated until they are complete and available for use; when they are reclassified to an asset class and subject to the depreciation rates set out above. Financial Reporting Standard 15 requires fixed assets which are carried at re-valued amounts to be shown at their current value at the balance sheet date. To achieve this cable-ships are subject to a full external valuation every five years with an interim valuation carried out in the third year of this cycle. At the end of 2012 a full valuation was undertaken on the cable-ships.

An impairment provision is made whenever there is an indication that net book value is greater than the valuation. Impairment losses are charged to the revaluation reserve to the extent that a previous gain has been reversed and thereafter to the profit and loss account as incurred. In the event of a subsequent upwards revaluation of a previously impaired asset, the provision is reversed through operating expenses in so far as it was originally charged to the profit and loss account.

#### **Revaluation reserve**

Any surpluses on revaluation of the cable-ships are recognised in the revaluation reserve, except where they reverse previously charged impairment losses, in which case they are recorded in the profit and loss account. Depreciation relating to the re-valued part of the asset is transferred to the profit and loss account as a movement on reserves.

#### **Turnover**

Turnover represents amounts receivable for goods and services provided in the normal course of business, net of trade discounts, VAT and other sales related taxes.

Turnover of the business for each market is treated consistently without any differentiation between market sectors, and apart from long-term contracts, revenue is recognised on an accruals basis.

Turnover and profit on long-term contracts are recognised in the financial statements according to the overall state of completion of the contract reached during the period. Amounts recoverable on long term contracts, which are included in accrued income, are stated at the sales net value of the work done less amounts received as progress payments on the account. Excess progress payments are included in deferred income as payments on account. Cumulative costs incurred net of amounts transferred to cost of sales, less provision for contingencies and anticipated future losses on contracts, are included as long term contract balances in stock and work in progress.

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## **Bridgehouse Marine Limited**

### **Notes to the financial statements for the year ended 31 December 2013(continued)**

#### **Investments**

The Group's investments in subsidiary undertakings, associate undertakings and joint ventures are stated at cost less any provision for impairment. Impairment reviews are carried out by management should any events occur or business circumstances change which indicate that recoverable amount is below carrying value. Any impairment provisions are charged to the company profit and loss account.

The Group has certain contractual agreements with other participants in unincorporated entities that create an entity carrying on a trade or business of its own (joint arrangements — non entity). The Group include the results of these entities within its own results.

The Group's investments in joint ventures and associate undertakings are accounted for using the Equity method.

#### **Foreign currency**

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. Exchange differences are included in the profit and loss account.

The results of overseas operations are translated at average rates of exchange during the year and the balance sheet translated into sterling at the rate of exchange ruling on the balance sheet date. Exchange differences that arise from translation of the opening net assets in foreign subsidiary's undertakings and any other exchange differences are taken to the profit and loss account reserves.

#### **Leases**

Assets held under finance leases and other similar contracts, which confer rights and obligations similar to those attached to owned assets are capitalised as tangible fixed assets and are depreciated over the shorter of their useful lives or the lease period. The capital elements of future asset lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the leases to produce a constant rate of charge on the balance of capital repayments outstanding.

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term, except where the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate is shorter than the full lease term, in which case the shorter period is used.

#### **Sale and leaseback**

Sale and leaseback arrangements, by means of a finance lease are accounted for in the same manner as a standard finance lease agreement. On sale, the asset is not removed from the fixed assets and any profit or loss on disposal is deferred and amortised over the useful life of the asset.

#### **Leased assets – Lessor**

Annual rentals from operating leases are credited to the profit and loss account on a straight line basis over the term of the lease, with the leased asset accounted for in accordance with the policy for tangible fixed assets.

#### **Pensions**

The Group operates various pension schemes comprising both defined benefit schemes and defined contribution schemes. The company also makes contributions on behalf of employees who are members of the Merchant Navy Officers Pension Fund (MNOFF).

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## **Bridgehouse Marine Limited**

### **Notes to the financial statements for the year ended 31 December 2013(continued)**

For the defined benefit schemes and the MNOPF scheme the amounts charged to operating profit are the current service costs and the gains and losses on settlements and curtailments. These are included as part of staff costs. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until the vesting occurs. The interest cost and the expected return of assets are shown as a net amount of other finance cost or income adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

Defined benefit schemes are funded with the assets of the scheme held separately from those of the Group, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability is presented separately after net assets on the face of the balance sheet.

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

### **Stocks and work in progress**

Stocks are valued at the lower of cost and net realisable value on a first in first out basis. Provisions for deterioration and obsolescence are made where appropriate and are charged to the profit and loss account in operating expenses.

Short term work in progress on contracts is stated at cost less foreseeable losses. These costs include only direct labour and expenses incurred to date and exclude any allocation of overheads. The policy for long term work in progress contracts is disclosed within the Turnover accounting policy.

### **Research and development**

Research and development expenditure is written off to the profit and loss account as incurred. Development expenditure is also written off as incurred.

### **Taxation**

Global Marine Systems Limited re-entered into the UK tonnage tax regime on 1 January 2011 for a period of ten years. Under the tonnage tax regime the current year tax charge arising on qualifying activities is calculated by reference to net tonnage of the qualifying ships owned by the Group.

This method replaces both the tax-adjusted commercial profit/loss on qualifying shipping trade and chargeable gains/losses made on disposal of tonnage tax assets as calculated in previous periods. To the extent that the company generates profits/losses, which do not qualify for inclusion under the above regime, they will be taxable under general UK corporation tax principles.

Deferred taxation should not generally arise in respect of profits/losses within the tonnage tax regime. However, where the Group generates profits/losses which do not qualify for inclusion under the above regime, deferred taxation will be provided on income and expenditure dealt with for taxation purposes in periods different from those for accounting purposes, to the extent that it is probable that a liability or asset will crystallise. Deferred tax balances are not discounted.

### **Other operating Income**

Other operating income consists of income from miscellaneous asset sales not considered to be part of the core operating business. Revenue and costs are recognised on completion of the sale or event as described in the individual contract.

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## Bridgehouse Marine Limited

### Notes to the financial statements for the year ended 31 December 2013(continued) Exceptional Items

Exceptional items are those material items of income and expenditure which the Group has disclosed separately because of their quantum or incidence so as to give a clearer understanding of the Group's financial performance.

#### Minority Interests

Equity minority interests represent the share of the profits less losses on ordinary activities attributable to the interests of the equity shareholders in subsidiaries which are not wholly owned by the group.

#### Liquid resources

For the purpose of the cash flow statement, liquid resources are defined as current asset investments and short term deposits.

#### 2 Prior year adjustment

It has come to the attention of the directors that the rights attaching to the 'B' shares in Global Marine Systems Limited give the owners of such shares an equity interest in the sub group headed by Global Marine Systems Limited. Consequently a prior year adjustment has been made to reflect this minority interest.

The effect of this change is to recognise a minority interest in the loss for the year ended 31 December 2012 of £337,000 and decrease the loss for the period by the same amount. The minority interest recognised at 31 December 2012 was £10,243,000, all comparatives have been restated.

#### 3 Corresponding figures

The analysis between continuing and discontinued operations for the year ended 31 December 2012 is shown below.

	<u>Continuing</u>	<u>Discontinued</u>	<u>Total</u>
	£'000	£'000	£'000
<b>Turnover (including share of joint ventures and associates)</b>	150,579	36,109	186,688
Less: share of joint ventures' turnover	(643)	—	(643)
share of associates' turnover	(47,630)	(9,144)	(56,774)
<b>Group turnover</b>	102,306	26,965	129,271
Other operating charges	(1,938)	(1,002)	(2,940)
Other operating costs	(93,109)	(28,040)	(121,149)
Exceptional items – contract losses	—	(10,375)	(10,375)
Operating costs	(95,047)	(39,417)	(134,464)
<b>Group operating profit / (loss)</b>	7,259	(12,452)	(5,193)

#### 4 Turnover

Turnover, results and net assets are principally derived from telecommunications, oil & gas, offshore power and science and research. Contracts within telecommunications include long term agreements for the provision of maintenance of submarine telecommunications cables as well as associated services for the installation either directly with cable owners or indirectly by providing charter services, including transactions with Group companies and joint ventures. Turnover from oil & gas and offshore power are service based and include the installation and associated services in connection with the laying of marine power cables to wind farms and oil & gas pipelines.

## Bridgehouse Marine Limited

### Notes to the financial statements for the year ended 31 December 2013(continued)

Turnover including JVs & associates as analysed by geographical location of works undertaken in percentage terms is as follows:

	<u>2013</u>	<u>2012</u>
	%	%
United Kingdom	<b>21.2</b>	18.6
Europe, excluding the United Kingdom	<b>2.9</b>	6.3
Asia Pacific	<b>49.3</b>	55.6
Americas	<b>26.6</b>	19.5

Part of the Group's success has been based on the substitutability of services between market sectors. Cable-ships by nature are also mobile and easily transit between regions as required. Business is contracted to optimise the combination of available business and asset mix and fit at the time of contracting. For this reason, the directors consider that the disclosure of assets and profitability against any particular geographical segments and turnover by market sector would be misleading and seriously prejudicial to the interests of the Group.

## 5 Operating costs

	<u>2013</u>	<u>2012</u>
	£'000	£'000
Change in stocks of finished goods and in work in progress	<b>(1,609)</b>	2,116
Raw materials and consumables	<b>612</b>	1,410
Impairment of fixed asset investment	<b>—</b>	518
Other external charges	<b>47,477</b>	75,878
Wages and salaries (note 8)	<b>23,234</b>	25,436
Social security costs (note 8)	<b>686</b>	1,180
Defined benefit pension current service cost (note 8)	<b>54</b>	59
Defined contribution pension cost (note 8)	<b>1,055</b>	1,009
Pension scheme costs borne by the Group (note 8)	<b>1,003</b>	981
Depreciation of tangible fixed assets:		
- Owned	<b>3,651</b>	6,761
- Assets under finance lease	<b>7,631</b>	7,296
Amortisation of negative goodwill	<b>(1,380)</b>	(1,495)
	<b>82,414</b>	121,149
Exceptional items	<b>4,250</b>	10,375
Total	<b>86,664</b>	131,524

In 2013 the exceptional item relates to a provision in respect of a related party receivable as detailed in note 25.

In 2012 the exceptional item relates to one-off losses incurred on the Globe Tech 1 and Gwynt Y Mor projects in the discontinued Global Marine Systems Energy Limited business.

## Bridgehouse Marine Limited

### Notes to the financial statements for the year ended 31 December 2013(continued)

#### 6 Operating profit / (loss)

	2013	2012
	£'000	£'000
<b>Operating profit / (loss) is stated after charging / (crediting):</b>		
Operating lease rentals:		
- Cable-ships and other plant	4,085	8,567
- Other	1,630	5,418
Income from operating leases	<b>(21,197)</b>	<b>(2,697)</b>
Profit on disposal of assets	(40)	(660)
Loss on exchange	<b>(2,110)</b>	<b>(2,943)</b>
Auditors remuneration:		
- Fees payable to the company's auditor for the audit of the company's annual financial statements	—	—
- Fees payable to the company's auditor and its associates for other services:		
- The audit of the company's subsidiaries, pursuant to legislation	154	154
- Tax services	<b>25</b>	<b>25</b>

#### 7 Remuneration of directors

	Group	
	2013	2012
	£'000	£'000
<b>Directors' emoluments in respect of qualifying services were:</b>		
Aggregate emoluments	<b>238</b>	<b>178</b>
	<b>2013</b>	<b>2012</b>
	<b>£'000</b>	<b>£'000</b>
<b>Highest paid director</b>		
Aggregate emoluments	<b>238</b>	<b>178</b>

There were no directors emoluments paid as fees relating to director services provided to the Group through related party companies (2012: nil)

#### 8 Employee Information

The average monthly number of persons employed by the Group (including directors) during the year, analysed by category, was as follows:

	Group	
	2013	2012
	Number	Number
Marine	245	249
Operational support	105	180
Sales and administration	35	44
	<b>385</b>	<b>473</b>

## Bridgehouse Marine Limited

### Notes to the financial statements for the year ended 31 December 2013(continued)

The reduction of employee numbers in 2013 for operational support and sales and administration is due to the sale of the Energy business in November 2012.

	<u>2013</u>	<u>2012</u>
	£'000	£'000
The aggregate payroll costs were as follows:		
Wages and salaries	23,234	25,436
Social security costs	686	1,180
Other pension costs	1,109	1,068
Pension scheme costs borne by the Group	1,003	981
	<u>26,032</u>	<u>28,665</u>
	<u>2013</u>	<u>2012</u>
	£'000	£'000
Other pension costs comprise:		
Contributions paid to Defined Contribution pension schemes (note 24)	1,055	1,009
FRS 17 Current Service Cost – MNOFF fund (note 24)	54	59
	<u>1,109</u>	<u>1,068</u>

The company did not employ any persons during the year and therefore had no payroll costs.

### 9 Interest receivable and similar income

	<u>2013</u>	<u>2012</u>
	£'000	£'000
<b>Group</b>		
Interest receivable on fixed term loan	905	73
Interest receivable on bank deposits	38	4
Interest receivable on other loans	250	—
	<u>1,193</u>	<u>77</u>
<b>Joint ventures and Associates</b>		
Interest receivable on bank deposits – Joint ventures	525	604
Interest receivable on bank deposits – Associates	51	61
	<u>1,769</u>	<u>742</u>

**Bridgehouse Marine Limited****Notes to the financial statements for the year ended 31 December 2013(continued)****10 Interest payable and similar charges**

	<u>2013</u>	<u>2012</u>
	<u>£'000</u>	<u>£'000</u>
<b>Group</b>		
Interest payable on loans	—	441
Finance charges in respect of finance leases and hire purchase	<u>4,771</u>	<u>5,211</u>
	<b>4,771</b>	<b>5,652</b>
Exchange losses	<u>(913)</u>	<u>346</u>
<b>Joint ventures and Associates</b>		
Amounts payable on bank loans and overdrafts – Joint ventures	—	4
Amounts payable on bank loans and overdrafts – Associates	<u>673</u>	<u>422</u>
	<u><b>4,531</b></u>	<u><b>6,424</b></u>

**11 Tax loss on profit / (loss) on ordinary activities**

	<u>2013</u>	<u>2012</u>
	<u>£'000</u>	<u>£'000</u>
UK current taxation	<b>10</b>	<b>15</b>
Overseas taxation	—	—
Overseas deferred taxation – Origination and reversal of timing differences	<u>—</u>	<u>(80)</u>
	<b>10</b>	<b>(65)</b>
Share of tax in		
- Joint ventures	<b>20</b>	<b>28</b>
- Associates	<u><b>439</b></u>	<u><b>803</b></u>
	<u><b>469</b></u>	<u><b>766</b></u>

On 1 January 2011, the Group renewed its election into the UK Tonnage Tax regime for a period of 10 years. This regime calculates tax payable on qualifying shipping activities in accordance with the net tonnage of qualifying ships, rather than the adjustment of commercial profits.

A reconciliation of the loss before tax at the standard corporation tax rate to the credit for the year is not disclosed as the Group is within the tonnage tax regime, under which taxation is not related to profits and losses.

**Bridgehouse Marine Limited**

**Notes to the financial statements for the year ended 31 December 2013(continued)**

**12 Intangible fixed assets**

Group	Negative goodwill £'000
<b>Cost</b>	
At 1 January 2013 and 31 December 2013	<u><u>(57,120)</u></u>
<b>Accumulated amortisation</b>	
At 1 January 2013	44,305
Provided in the year	1,380
At 31 December 2013	<u><u>45,685</u></u>
<b>Net Book Value</b>	
<b>At 31 December 2013</b>	<u><u>(11,435)</u></u>
At 31 December 2012	<u><u>(12,815)</u></u>

The company has no intangible fixed assets.

**13 Tangible assets**

Group	Cable-ships and submersibles £'000	Assets under construction	Motor vehicles and plant £'000	Land & Buildings Short leasehold £'000	Total £'000
<b>Cost or valuation</b>					
At 1 January 2013	131,071	889	12,951	12,498	157,407
Exchange rate revaluation	(1,041)	—	—	(2)	(1,043)
Additions	16	9,627	22	—	9,665
Disposals	(1,233)	—	(34)	—	(1,267)
Reclassification	3,404	(3,408)	4	—	—
At 31 December 2013	<u><u>132,217</u></u>	<u><u>7,108</u></u>	<u><u>12,943</u></u>	<u><u>12,494</u></u>	<u><u>164,762</u></u>
<b>Accumulated depreciation</b>					
At 1 January 2013	32,134	—	12,564	8,465	53,163
Exchange rate revaluation	(317)	—	—	(1)	(318)
Provided for the year	10,524	—	320	438	11,282
Disposals	(1,194)	—	(34)	—	(1,228)
At 31 December 2013	<u><u>41,147</u></u>	<u><u>—</u></u>	<u><u>12,850</u></u>	<u><u>8,902</u></u>	<u><u>62,899</u></u>
<b>Net book value</b>					
<b>At 31 December 2013</b>	<u><u>91,070</u></u>	<u><u>7,108</u></u>	<u><u>93</u></u>	<u><u>3,592</u></u>	<u><u>101,863</u></u>
At 31 December 2012	<u><u>98,937</u></u>	<u><u>889</u></u>	<u><u>387</u></u>	<u><u>4,031</u></u>	<u><u>104,244</u></u>



## Bridgehouse Marine Limited

### Notes to the financial statements for the year ended 31 December 2013(continued)

Included in the total net book value of cable-ships and submersibles of the Group is £74,866,400 (2012: £82,490,421) in respect of assets held under finance leases and hire purchase contracts. Depreciation for the Group for the year on these assets was £7,631,377 (2012: £7,295,903).

The historical cost of cablesips and submersibles is

	<b>Group 2013</b>	Group 2012
	<b>£'000</b>	£'000
Cost	<b>204,311</b>	203,165
Accumulated depreciation based on historical cost	<b>(192,888)</b>	(187,406)
Historical cost net book value	<b>11,423</b>	15,759

Cable-ships and submersibles with total cost of £44,859,467 (2012: £46,327,753) and net book value of £40,771,125 (2012: £46,327,753) are held for use in operating leases.

M3 Marine Pte Limited, an external professional broker provided a market valuation dated both 31 December 2012 for 4 cable-ships and at 4 February 2013 for 2 cable-ships which have been re-valued in the balance sheet at 31 December 2012.

Derrick Offshore Limited, also an external professional broker has provided a market valuation dated 22 July 2013 for one cable-ship which has been re-valued in the balance sheet at 31 December 2012.

The directors are not aware of any material change that would affect these valuations and consider them to be reflective of the year end position.

The company has no tangible fixed assets.

## 14 Investments

Group	Joint Ventures*	Associates*	Sub Total	Other investment	Total
	£'000	£'000	£'000	£'000	£'000
At 1 January 2013	17,172	30,680	47,852	60	47,912
Exchange rate revaluation	(804)	(70)	(874)	—	(874)
Additions	—	—	—	126	126
Dividends received	(2,087)	(1,022)	(3,109)	—	(3,109)
Share of retained profit for the year	693	2,105	2,798	—	2,798
Disposal	—	—	—	(186)	(186)
<b>At 31 December 2013</b>	<b>14,974</b>	<b>31,693</b>	<b>46,667</b>	<b>—</b>	<b>46,667</b>

\* Share of net assets

During 2013 the Group invested \$181,000 (2012 – \$800,000) into Global Marine Energy Inc. by way of equity loans. This company was dissolved as at 23 July 2013.

## Bridgehouse Marine Limited

### Notes to the financial statements for the year ended 31 December 2013(continued)

The aggregate amount of capital and reserves for each joint venture and associate company at its last year end, together with the profit or loss for its financial year are disclosed below:

	Currency	Capital and Reserves	Profit / (loss) for the year ended	Accounting reference date
	000's			
<b>Joint Ventures</b>				
Sembawang Cable Depot Pte Limited	SGD	628	914	31 March 2014
International Cables Pte Limited	SGD	26,930	11,142	31 March 2014
Visser Smit – Global Marine VOF	EUR	767	—	31 December 2013
Sino British Submarine Systems Co Ltd – Consolidated results	Rem Yuan	529,024	48,422	31 December 2013
Huawei Submarine Systems Co Ltd – Consolidated results	HKD	158,977	3,216	31 December 2013

The Group's share of contingent liabilities and capital commitments of the joint ventures and associate companies was £nil (2012: £nil).

The following information is given in respect of the Group's share of all joint ventures and associates.

	Joint ventures		Associates	
	2013	2012	2013	2012
	£'000	£'000	£'000	£'000
Fixed assets	5	7	24,763	26,733
Current assets	15,340	17,431	31,232	32,509
Liabilities due within one year	<u>(371)</u>	<u>(266)</u>	<u>(24,302)</u>	<u>(28,562)</u>

The group had the following aggregate interest in associates:

	SBSS	HMS	Total	SBSS	HMS	Total
	2013	2013	2013	2012	2012	2012
	£'000	£'000	£'000	£'000	£'000	£'000
Turnover	18,636	25,495	44,131	18,114	29,516	47,630
Profit / (loss) before tax	2,800	(256)	2,544	2,313	703	3,016
Taxation	(389)	(50)	(439)	(300)	(79)	(379)
Profit / (loss) after tax	<u>2,411</u>	<u>(306)</u>	<u>2,105</u>	<u>2,013</u>	<u>624</u>	<u>2,637</u>
Fixed assets	23,800	963	24,763	25,405	1,328	26,733
Current assets	9,740	21,492	31,232	9,735	22,774	32,509
	<u>33,540</u>	<u>22,455</u>	<u>55,995</u>	<u>35,140</u>	<u>24,102</u>	<u>59,242</u>
Liabilities due within one year	<u>(7,967)</u>	<u>(16,335)</u>	<u>(24,302)</u>	<u>(11,016)</u>	<u>(17,546)</u>	<u>(28,562)</u>
Net assets	<u>25,573</u>	<u>6,120</u>	<u>31,693</u>	<u>24,124</u>	<u>6,656</u>	<u>30,680</u>

## Bridgehouse Marine Limited

### Notes to the financial statements for the year ended 31 December 2013(continued)

<b>Company</b>	<b>Shares</b>
	Subsidiary Undertakings
	£'000
<b>Cost</b>	
At 1 January 2013 and 31 December 2013	1,271

In the opinion of the directors the investments in, and amounts due from, the Company's subsidiary undertakings, associates and joint ventures are of a value of at least the amounts at which they are stated in the balance sheet.

<b>Subsidiary Undertaking</b>	<b>% holding and class</b>	<b>Country of registration or incorporation</b>	<b>Nature of business</b>
Global Marine Systems Limited	90% ordinary	England and Wales	Submarine Telecommunications
Global Marine Systems (Americas) Inc**	100% ordinary	USA	Holding company
Global Marine Cable Systems Pte Limited**	100% ordinary	Singapore	Submarine telecommunications
Vibro-Einspultechnik Duker and Wasserbau GmbH**	100% ordinary	Germany	Submarine telecommunications
Global Marine Systems (Depots) Limited**	100% ordinary	Canada	Cable storage
GMSG Limited**	100% ordinary	Guernsey	Fleet manning
Global Marine Systems Pension Trustee Limited**	100% ordinary	England and Wales	Pension
Global Marine Systems (Bermuda) Limited**	100% ordinary	Bermuda	Dormant
Global Marine Systems (investments) Limited**	100% ordinary	England and Wales	Holding company
Global Marine Systems (Vessels II) Limited**	100% ordinary	England and Wales	Special construction
Redsky Subsea Limited**	100% ordinary	England and Wales	Investment
Global Marine Systems (Vessels) Limited**	100% ordinary	England and Wales	Barecon charter agreements
Global Marine Search Limited**	100% ordinary	England and Wales	Conduct searches for subsea sunken wrecks
Global Marine Salvage Limited**	100% ordinary	Isle of Man	Barecon charter agreements
Global Marine Systems (Netherlands) BV**	100% ordinary	The Netherlands	Dormant
Global Cable Technology Limited**	65% ordinary	England and Wales	Manufacture of Joining kits
Harmstorf Submarine Systems (Malaysia) Sdn Bhd**/***	30% ordinary	Malaysia	Submarine telecommunications
Global Marine Systems Oil and Gas Limited**	100% ordinary	England and Wales	Dormant
GMSL Employee Benefit Trust Limited**	100% ordinary	England and Wales	Trust

\*\* Undertaking held indirectly by the company.

\*\*\* Included as subsidiary as Bridgehouse Marine Limited has the ability to control the entity.

All subsidiary companies are included in the consolidated Group numbers.

## Bridgehouse Marine Limited

### Notes to the financial statements for the year ended 31 December 2013(continued)

	<u>% holder and class</u>	<u>Country of Registration or Incorporation</u>	<u>Nature of Business</u>	<u>Accounting period end</u>
<b>Joint Ventures</b>				
Sembawang Cable Depot Pte Limited**	40% ordinary	Singapore	Cable storage	31 March
International Cables Ship Pte Limited**	30% ordinary	Singapore	Ship operator	31 March
Visser Smit – Global Marine VOF**	50% partnership share	Netherlands	Wind farm Installation	31 December
<b>Associates</b>				
Sino British Submarine Systems Co Ltd**	49% ordinary	China	Submarine telecommunications	31 December
Shanghai Jian Long**	39.2% ordinary (effective)***	China	Submarine telecommunications	31 December
Huawei Submarine Systems Co Ltd**	49% ordinary	Hong Kong	Investment	31 December
Huawei Marine Networks Ltd**	49% ordinary (effective)***	China	Submarine telecommunications	31 December

\*\* Undertaking held indirectly by the principal trading subsidiary.

\*\*\* Huawei Marine Networks Ltd is 100% owned by Huawei Submarine Systems Co Ltd; therefore the company effectively owns 49% of Huawei Marine Networks Ltd.

\*\*\*\* Shanghai Jian Long is 80% owned by Sino British Submarine Systems Co Ltd; therefore the company effectively owns 39.2% of Shanghai Jian Long.

## 15 Stocks

	<u>Group</u>	
	<u>2013</u>	<u>2012</u>
	<u>£'000</u>	<u>£'000</u>
Raw materials and consumables	<b>4,844</b>	4,209
Work in progress.	<b>1,021</b>	47
	<b>5,865</b>	4,256

## 16 Debtors

	<u>Group</u>		<u>Company</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
<b>Amounts due within one year:</b>				
Trade debtors	<b>16,296</b>	27,098	—	—
VAT	<b>403</b>	547	—	—
Other debtors	<b>26,242</b>	10,280	—	—
Prepayments and accrued Income	<b>5,686</b>	5,306	—	—
	<b>48,627</b>	43,231	—	—
<b>Amounts due after more than one year:</b>				
Other debtors	<b>4,555</b>	4,614	—	—

The amounts owed by Group undertakings are unsecured, non-interest bearing and repayable on demand.

**Bridgehouse Marine Limited**

**Notes to the financial statements for the year ended 31 December 2013(continued)**

**17 Creditors: amounts due within one year**

	Group		Company	
	2013	2012	2013	2012
	£'000	£'000	£'000	£'000
Trade creditors	<b>7,950</b>	2,435	—	—
Amounts owed to Group undertakings	—	—	<b>4,000</b>	69
Obligations under finance leases and hire purchase contracts (note 18)	<b>19,219</b>	4,079	—	—
UK Corporation tax	<b>33</b>	53	—	—
Other taxation and social security	<b>518</b>	580	—	—
Other creditors	<b>3,877</b>	3,652	—	—
Accruals and deferred Income	<b>4,728</b>	11,202	—	—
Deferred income	<b>10,917</b>	9,080	—	—
	<b>47,242</b>	31,081	<b>4,000</b>	69

**18 Creditors: amounts falling due after more than one year**

	Group	
	2013	2012
	£'000	£'000
Obligations under finance leases and hire purchase contracts	<b>36,881</b>	58,256
Accruals and deferred income	<b>4,309</b>	3,917
	<b>41,190</b>	62,173

	Group	
	2013	2012
	£'000	£'000
The maturity of obligations under finance leases are as follows:		
Within one year	<b>19,219</b>	4,079
In second to fifth year	<b>18,238</b>	27,291
Over five years	<b>18,643</b>	30,965
	<b>56,100</b>	62,335

The finance leases are secured on the assets to which they relate and bear interest at a rate of 11% (2011: 11%).

## Bridgehouse Marine Limited

### Notes to the financial statements for the year ended 31 December 2013(continued)

#### 19 Provision for liabilities

Group	SPA settlement provision	Insurance Provisions	Deferred tax	Total
	£'000	£'000	£'000	£'000
At 1 January 2013	9,480	905	652	<b>11,037</b>
Exchange adjustment	—	—	(34)	<b>(34)</b>
Charged to the profit and loss account	8,462	(180)	—	<b>8,282</b>
At 31 December 2013	<u>17,942</u>	<u>725</u>	<u>618</u>	<u><b>19,285</b></u>

#### Insurance provisions

Insurance provisions relate to potential costs for current insurance claims.

#### SPA settlement

In November 2012, Global Marine Systems Limited ('Company') disposed of its subsidiary Global Marine Systems Energy Limited ('GME')

As prescribed under the terms of the Sale and Purchase Agreement ('SPA') the purchaser reviewed the 'closing accounts' in December 2012 which resulted in the purchaser submitting a claim under the SPA for a reduction in the overall purchase price.

The dispute was determined on 31<sup>st</sup> March 2014 and the provision has been amended accordingly.

#### Deferred tax

As disclosed in Note 11, since January 2001, the Group has reported under the UK Tonnage Tax regime. This regime calculates tax payable on qualifying shipping activities in accordance with the net tonnage of qualifying ships, rather than the adjustment of commercial profits,

Deferred taxation provided in the financial statements and the potential liability, including amounts for which provision has been made, is as follows:

Group	Amounts provided		Amounts unprovided	
	2013 £'000	2012 £'000	2012 £'000	2011 £'000
Revalued assets	259	272	6,934	9,790
Advanced capital allowances	392	429	—	—
FRS 17 pension liability	—	—	(6,219)	(5,888)
Tax losses available	(33)	(49)	(30,156)	(34,183)
Total liability/(asset)	<u>618</u>	<u>652</u>	<u>(29,441)</u>	<u>(30,281)</u>

The majority of the Group's assets are tonnage tax assets, which do not qualify for capital allowances or capital gains allowable in the periods in which the Group is within the tonnage tax regime. Deferred tax liabilities in respect of these assets have not been provided on the basis that the Group intends to remain in the tonnage tax regime for the full 10 years and has no current plans to make further disposals of tonnage tax assets.

## Bridgehouse Marine Limited

### Notes to the financial statements for the year ended 31 December 2013(continued)

An unrecognised deferred tax asset arises in relation to tax losses on the non-tonnage tax business. These deferred tax assets have not been recognised on the basis that there is insufficient evidence of taxable profits arising in the future. The deferred tax asset will be recognised if sufficient profits are generated in the future to enable the asset to become recoverable.

#### 20 Called up share capital

Group and company	2013	2012
	£'000	£'000
<b>Authorised</b>		
2,000,000 ordinary shares of £1 each	<u>2,000</u>	<u>2,000</u>
<b>Allotted, called up and fully paid</b>		
1,266,000 ordinary shares of £1 each	<u>1,266</u>	<u>1,266</u>

#### 21 Reserves

Group	Revaluation reserve	Profit and loss account
	£'000	£'000
At 1 January 2013 as previously stated	39,737	50,313
Prior year adjustment	(3,974)	(6,449)
At 1 January 2013 as restated	35,763	43,864
Profit for the financial year	—	2,093
Depreciation on revalued assets	(3,178)	3,178
Actuarial profits on pension schemes	—	(8,745)
Adjustment in respect of employee share schemes	—	(106)
Net translation differences on foreign currency	(154)	(544)
<b>At 31 December 2013</b>	<u>32,431</u>	<u>39,740</u>

Company	Profit and loss account
	£'000
At 1 January 2013	(64)
Loss for the financial year	(3,931)
<b>At 31 December 2013</b>	<u>(3,995)</u>

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**Bridgehouse Marine Limited**

**Notes to the financial statements for the year ended 31 December 2013(continued)**

**22 Reconciliation of movement in shareholder's funds**

	Group		Company	
	2013	2012	2013	2012
Group	£'000	As restated £'000	£'000	£'000
Opening shareholders' funds	91,316	106,134	1,202	1,213
Prior year adjustment	(10,423)	(12,053)	—	—
Opening shareholders' funds as restated	80,893	94,081	1,202	1,213
Profit / (loss) for the financial year	2,093	(1,546)	(3,931)	(11)
Impairment of revalued assets	—	(5,605)	—	—
Adjustment in respect of employee share schemes	(106)	—	—	—
Currency translation differences on foreign currency net investments	(698)	(891)	—	—
Actuarial losses on pension schemes	(8,745)	(5,146)	—	—
Closing shareholders' funds	73,437	80,893	(2,729)	1,202

Of the results for the financial year, a loss of £3,931,000 (2012: £11,000), is dealt with in the accounts of Bridgehouse Marine Limited ('company'). The directors have taken advantage of the exemption available under section 406 of the Companies Act 2006 and not presented a profit and loss account for the company alone.

**23 Financial commitments**

a) Financial commitments at the end of the year for which no provision has been made:

Group	2013 £'000	2012 £'000
Fixed Asset Purchase Commitments	732	4,883

b) Annual commitments under non-cancellable operating leases are as follows:

Group	2013		2012	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Operating leases which expire				
Within one year	—	—	10	—
Between two and five years	520	464	358	—
After five years	835	—	1,025	—
	1,355	464	1,393	—



## **Bridgehouse Marine Limited**

### **Notes to the financial statements for the year ended 31 December 2013(continued)**

#### **24 Pension commitments**

The Group has established a number of pension schemes and contribute to other pension schemes around the world covering many of its employees. The principal funds are those in the UK comprising The Global Marine Systems Pension Plan, The Global Marine Personal Pension Plan (established in 2008), and Global Marine Systems (Guernsey) Pension Plan. A number of employees are members of the Merchant Navy Officers Pension Fund, a centralised defined benefit scheme to which the Group contributes.

The Global Marine Systems Pension Plan, the Global Marine Systems (Guernsey) Pension Plan and the Merchant Navy Officers Pension Fund are funded schemes of the defined benefit type with assets held in separate trustee administered funds. However as the Global Marine Systems (Guernsey) Pension Plan, which operates both a Career Average Re-valued Earnings ("CARE") defined benefit section and a defined contribution section is small with few members, the scheme is accounted for as defined contribution type scheme. The Global Marine Personal Pension Plan is predominantly of the money purchase type.

The Global Marine Systems Pension Plan was a hybrid, exempt approved, occupational pension scheme for the majority of staff, which provides pension and death in service benefits. The defined benefit section of the Plan provided final salary benefits up to 31 December 2003 and CARE benefits from 1 January 2004. In 2008 the defined contribution section was closed to new contributions and all the accumulated funds attributable to the defined contribution members were transferred to a Contracted in Money Purchase Scheme ("CIMP") set up by the Group. These funds were held on behalf of the defined contribution members and were all transferred to the Global Marine Personal Pension plan of each member on or before 30 June 2009. From 31 August 2006 the defined benefit section of the Scheme closed to future accrual and active members were offered membership of the existing defined contribution section (with some enhanced benefits).

#### **Pension scheme valuations and contributions payable**

##### Global Marine Systems Pension Plan – Defined Benefit Section

The defined benefit section of the Global Marine Systems Plan (prior to its closure on 31 August 2006) was contributory, with employees contributing between 5% and 8% (depending on their age) and the employer contributing at a rate of 9.2% of pensionable salary plus deficit contributions of £950,000 per annum.

The defined benefit section of the Global Marine Systems Pension Plan is funded by the payment of contributions determined with the advice of qualified independent actuaries on the basis of triennial valuations using the projected unit method.

The most recent full actuarial valuation was conducted as at 31 December 2013. The main assumptions used were that Retail Price Inflation would be 3.7% per annum, Consumer Price Inflation would be 2.7% per annum, the rate of return on investments (pre-retirement) would be 5.5% per annum, the rate of return on investments (post-retirement) would be 4.5% per annum, with pensions increasing by 3.0% per annum.

At the actuarial valuation date the market value of the defined benefit section's assets amounted to £88,980,000. On a statutory funding objective basis the value of these assets covered the value of technical provisions by 74%.

Following the 2013 actuarial valuation, contributions are payable by the Group as follows:

- £312,500 payable every month during calendar year 2014;
  - £333,334 payable every month during calendar years 2015 to 2018 inclusive;
  - £375,000 payable every month during calendar years 2019 to May 2021 Inclusive;
  - £100,000 payable in June 2021
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## **Bridgehouse Marine Limited**

### **Notes to the financial statements for the year ended 31 December 2013(continued)**

- Profit-related component. The Company will pay 10% of profits after tax before dividends. This will be paid up to two years following the year end to enable budgeting and cash flow control.
- Dividend-related component. The Company will pay a cash sum equal to 50% of any future dividend payments excluding an agreed initial dividend of up to £5m.

#### Global Marine Personal Pension Plan

This is a defined contribution pension scheme and is contributory from the employee; the rate of contributions is split as follows:

- ex CARE employees contributing between 2.5% and 7.5% and the employer contributing at a matching rate plus an additional 5% fixed contributions,
- defined contribution employees contributing between 2% and 7.5% and the employer contributing at a matching rate.

#### Merchant Navy Officers Pension Fund

The Merchant Navy Officers Pension Fund is funded by the payment of contributions determined with the advice of qualified independent actuaries on the basis of triennial valuations using the projected unit method.

The most recent available full actuarial valuation was conducted as at 31 March 2012. The main assumptions used were that Retail Price Inflation would be 3.2% per annum, Consumer Price Inflation would be 2.2% per annum, the rate of return on investments (pre-retirement) would be 5.7% per annum, the rate of return on investments (post-retirement) would be 4.0% per annum and the rate of salary increases 4.2% per annum with pensions increasing by 3.0% per annum.

At the actuarial valuation date the market value of the total assets in the scheme amounted to £2,169m of which 0.05594% (£1,213k) relates to the Global Marine Systems Group. On an ongoing basis the value of these assets, together with the deficit contributions receivable from the 2003 / 2006 / 2009 of £340m, covered the value of pensioner' liabilities, preserved pension liabilities for former employees and the value of benefits for active members based on accrued service and projected salaries, to the extent of 94%.

Following the 2012 actuarial valuation, contributions are payable by the Group as follows:

- Increase Employer contributions to 20% of pensionable salaries from 1 October 2013.

#### Global Marine Systems (Guernsey) Pension Plan

The defined benefit section of the Guernsey Scheme is contributory, with employees contributing between 5% and 6% (depending on their age), the employer ceased contributing after July 2004. The defined contribution section is also contributory, with employees contributing between 2% and 7.5% (depending on their age and individual choice) and the employer contributing at a matching rate.

The defined benefit section of the Guernsey Scheme is funded by the payment of contributions determined with the advice of qualified independent actuaries on the basis of triennial valuations using the projected unit method.

An actuarial valuation was conducted as at 31 December 2010. The principal actuarial assumptions used by the actuary were investment returns of 5.7% per annum pre-retirement, 4.8% per annum post-retirement, inflation of 3.7% per annum and pension increases of 3.4% per annum.

At the valuation date the market value of the assets amounted to £1,267,000. The results show a past service shortfall of £390,000 corresponding to a funding ratio of 76%.

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## Bridgehouse Marine Limited

### Notes to the financial statements for the year ended 31 December 2013(continued)

Following the actuarial valuation as at 31 December 2010, contributions are as follows:

- 19.5% of Pensionable Salaries from 1 January 2012 for future final salary benefits and management expenses.
- Seven annual contributions of £66,000 on each 31 December, 2014 to 2020.

#### FRS17 Disclosures

##### Global Marine Systems Pension Plan – Defined Benefit Section

The valuation used for FRS 17 disclosures has been based on a full assessment of the liabilities of the Plan as at 31 December 2011. The present values of the defined benefit obligation and any past service costs were measured using the projected unit credit method. Since the deferred benefit section is closed to future accrual the current service cost is nil.

The Plan is a funded Plan with a defined benefit section and a defined contribution section (“DC”) section although all DC members’ funds, except for certain AVC funds, have been transferred to a Group Personal Pension Plan. These disclosures relate to the defined benefit section only which is closed to new entrants and future accruals (but members retained their entitlement to death-in-service and ill-health benefits).

Actuarial gains and losses have been recognised in the period in which they occur, (but outside the profit and loss account), through the Statement of Recognised Gains and Losses (“STRGL”).

The principal assumptions used by the independent qualified actuaries to calculate the liabilities and assets under FRS 17 are set out below:

	<u>2013</u>	<u>2012</u>
Rate of increase in salaries *	<b>Not applicable</b>	Not applicable
Rate of increase in deferred pensions **	<b>3.20%</b>	2.85%
Rate of increase in pensions in payment **	<b>3.20%</b>	2.85%
Discount rate	<b>4.50%</b>	4.60%
Inflation assumption – RPI	<b>3.35%</b>	2.95%
Inflation assumption – CPI	<b>2.35%</b>	2.25%
Expected return on scheme assets ***	<b>5.33%</b>	6.62%
Mortality assumption ****	<b>See below</b>	See below

\* It is not necessary to make an assumption about salary increases as the Plan changed to a CARE arrangement with effect from 1 January 2004.

\*\* The pension increase assumption is that for benefits increasing with RPI limited to 5% per annum, to which the majority of the Plan’s liabilities relate.

\*\*\* The Group employs a building block approach in determining the long-term rate of return of pension plan assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the Plan at 31 December 2013.

\*\*\*\* The mortality assumptions are based on standard mortality tables which allow for expected future mortality improvements. The assumptions are that a member currently aged 60 will live on average for a further 23.9 years if they are male, and for a further 27.6 years if they are female. For a member who retires in 2033 at age 60 the assumptions are that they will live on average for a further 26.1 years after retirement if they are male and for a further 29.6 years after retirement if they are female.

**Bridgehouse Marine Limited****Notes to the financial statements for the year ended 31 December 2013(continued)**

	<u>2013</u>	<u>2012</u>
	£'000	£'000
<b>The assets and liabilities of the Plan were:</b>		
Equities	23,500	51,762
Liability Hedging Assets	19,035	—
Hedge Funds	22,505	—
Index Linked Government Bonds	—	12,291
Corporate Bonds	15,794	19,183
Property	3,496	—
Other	3,991	88
Total market value of assets	<u>88,321</u>	<u>83,324</u>
Present value of liabilities	<u>(119,524)</u>	<u>(108,738)</u>
Net pension liability	<u><u>(31,203)</u></u>	<u><u>(25,414)</u></u>

As a result of the Group operating the tonnage tax regime corporation tax is not related to the movement in profit or losses. Consequently, no deferred tax asset arises on the pension scheme liabilities.

**Charges to the profit and loss account on the basis of the assumptions stated above are:**

	<u>2013</u>	<u>2012</u>
	£'000	£'000
<b>Profit and loss account</b>		
Finance cost		
Interest cost	4,934	4,705
Expected return on pension scheme assets	<u>(5,585)</u>	<u>(5,081)</u>
Total credit to other finance costs	<u>(651)</u>	<u>(376)</u>
Total credit to profit before taxation	<u><u>(651)</u></u>	<u><u>(376)</u></u>

	<u>2013</u>	<u>2012</u>
	£'000	£'000
<b>Changes to the present value of the defined benefit obligation during the year</b>		
Defined benefit obligation at 1 January	(108,738)	(97,574)
Interest cost	(4,934)	(4,705)
Net benefits paid out	2,979	3,128
Actuarial loss on plan liabilities	<u>(8,831)</u>	<u>(9,587)</u>
Defined benefit obligation at 31 December	<u><u>(119,524)</u></u>	<u><u>(108,738)</u></u>

**Bridgehouse Marine Limited**

**Notes to the financial statements for the year ended 31 December 2013(continued)**

	<u>2013</u>	<u>2012</u>
	£'000	£'000
<b>Changes to the fair value of plan assets during the year</b>		
Fair value of plan assets at 1 January	83,324	76,472
Expected return on plan assets	5,585	5,081
Contributions by the employer	2,855	1,738
Net benefits paid out	(2,979)	(3,128)
Actuarial (loss) / gain on plan assets	(464)	3,161
Fair value of plan assets at 31 December	<u>88,321</u>	<u>83,324</u>
	<u>2013</u>	<u>2012</u>
	£'000	£'000
<b>Actual return on plan assets</b>		
Expected return on plan assets	5,585	5,081
Actuarial (loss) / gain on plan assets	(464)	3,161
Actual return on plan assets	<u>5,121</u>	<u>8,242</u>

**Five year history of asset values, DBO and surplus/deficit in plan**

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
	£'000	£'000	£'000	£'000	£'000
Defined benefit obligation	(119,524)	(108,738)	(97,574)	(84,917)	(86,151)
Plan assets	88,321	83,324	76,472	76,365	70,873
Deficit	<u>(31,203)</u>	<u>(25,414)</u>	<u>(21,102)</u>	<u>(8,552)</u>	<u>(15,278)</u>
<b>Experience gains/(losses):</b>					
On Plan liabilities *	124	(3,454)	(810)	3,182	(3,139)
On Plan assets	(464)	3,161	(4,010)	3,738	4,297
Actuarial gain /(loss) recognised in STRGL	<u>(9,295)</u>	<u>(6,426)</u>	<u>(14,632)</u>	<u>2,172</u>	<u>(7,107)</u>
Cumulative amount of losses recognised in STRGL	<u>(38,682)</u>	<u>(29,387)</u>	<u>(22,961)</u>		

\* This item consists of gains / (losses) in respect of liability experience, excluding any changes in liabilities in respect of changes in the actuarial assumptions used.

**Merchant Navy Officers Pension Fund**

The valuation used for FRS 17 disclosures has been based on a full assessment of the liabilities of the Fund as at 31 March 2012. The present values of the defined benefit obligation and any past service costs were measured using the projected unit credit method.

The Plan is a funded arrangement of the defined benefit type, providing retirement benefits based on career average salary.

Actuarial gains and losses have been recognised in the period in which they occur, (but outside the profit and loss account), through the Statement of Recognised Gains and Losses ("STRGL").

## Bridgehouse Marine Limited

### Notes to the financial statements for the year ended 31 December 2013(continued)

The principal assumptions used by the independent qualified actuaries to calculate the liabilities and assets under FRS 17 are set out below.

	2013	2012
Rate of increase in salaries	4.85%	4.45%
Rate of increase in deferred pensions *	3.20%	2.85%
Rate of increase in pensions in payment *	3.20%	2.85%
Discount rate	4.50%	4.60%
Inflation assumption - RPI	3.35%	2.95%
Inflation assumption - CPI	2.35%	2.25%
Expected return on scheme assets **	4.92%	5.74%
Mortality assumption **	See below	See below

\* The pension increase assumption is that for benefits increasing with RPI limited to 5% per annum, to which the majority of the Plan's liabilities relate.

\*\* The Group employs a building block approach in determining the long-term rate of return of pension plan assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the Plan at 31 December 2013.

\*\*\* The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are that a member currently aged 60 will live on average for a further 25.6 years if they are male, and for a further 29.7 years if they are female. For a member who retires in 2033 at age 60 the assumptions are that they will live on average for a further 27.3 years after retirement if they are male and for a further 31.5 years after retirement if they are female.

	2013 £'000	2012 £'000
<b>The assets and liabilities of the fund were:</b>		
Equities	433	599
Fixed Interest Government Bonds	—	419
Hedge Funds	121	—
Corporate Bonds	433	209
LDI Strategy	623	—
Property	35	35
Other	85	28
Total market value of assets	1,730	1,290
Present value of liabilities	(1,620)	(1,478)
Net pension asset / (liability)	110	(188)

As a result of the company operating the Tonnage Tax regime corporation tax is not related to the movement in profit or losses. Consequently, no deferred tax asset arises on the pension scheme liabilities.

**Bridgehouse Marine Limited****Notes to the financial statements for the year ended 31 December 2013(continued)**  
**Charges to the profit and loss account on the basis of the assumptions stated above are:**

	<u>2013</u>	<u>2012</u>
	£'000	£'000
<b>Profit and loss account</b>		
Operating profit		
Current service cost	54	59
Total charge to operating profit	<u>54</u>	<u>59</u>
Finance costs		
Interest cost	66	148
Expected return on pension scheme assets	(90)	(141)
Total (credit) / charge to other finance costs	<u>(24)</u>	<u>7</u>
Total charge to profit before taxation	<u><u>30</u></u>	<u><u>66</u></u>

	<u>2013</u>	<u>2012</u>
	£'000	£'000
<b>Changes to the present value of the defined benefit obligation during the year</b>		
Defined benefit obligation at 1 January	(1,478)	(3,060)
Current service cost	(54)	(59)
Interest cost	(66)	(148)
Contributions by plan participants	(26)	(29)
Net benefits paid out	67	64
Actuarial (loss) / gain on fund liabilities	(63)	1,754
Defined benefit obligation at 31 December	<u><u>(1,620)</u></u>	<u><u>(1,478)</u></u>

	<u>2013</u>	<u>2012</u>
	£'000	£'000
<b>Changes to the fair value of plan assets during the year</b>		
Fair value of fund assets at 1 January	1,290	2,183
Expected return on plan assets	90	141
Contributions by the employer	750	47
Contributions by plan participants	26	29
Net benefits paid out	(67)	(64)
Actuarial (loss) / gain on fund assets	(359)	(1,046)
Fair value of fund assets at 31 December	<u><u>1,730</u></u>	<u><u>1,290</u></u>

**Bridgehouse Marine Limited**

**Notes to the financial statements for the year ended 31 December 2013(continued)**

	<u>2013</u>	<u>2012</u>
	£'000	£'000
<b>Actual return on fund assets</b>		
Expected return on fund assets	90	141
Actuarial loss on fund assets	<u>(359)</u>	<u>(1,046)</u>
Actual loss on fund assets	<u><u>(269)</u></u>	<u><u>(905)</u></u>

**Five year history of asset values, DBO and surplus/deficit in fund**

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
	£'000	£'000	£'000	£'000	£'000
Defined benefit obligation	<u>(1,620)</u>	<u>(1,478)</u>	<u>(3,060)</u>	<u>(2,606)</u>	<u>(1,808)</u>
Plan assets	<u>1,730</u>	<u>1,290</u>	<u>2,183</u>	<u>2,070</u>	<u>1,194</u>
Deficit	<u>110</u>	<u>(188)</u>	<u>(877)</u>	<u>(536)</u>	<u>(614)</u>
<b>History of experience gains and (losses):</b>					
On Plan liabilities*	<u>—</u>	<u>1,830</u>	<u>(353)</u>	<u>(602)</u>	<u>(130)</u>
On Plan assets	<u>(359)</u>	<u>(1,046)</u>	<u>41</u>	<u>860</u>	<u>141</u>
Actuarial gain/(loss) recognised in STRGL	<u>(422)</u>	<u>708</u>	<u>(312)</u>	<u>118</u>	<u>(150)</u>
Cumulative amount of gains recognised in STRGL	<u><u>2,742</u></u>	<u><u>3,164</u></u>	<u><u>2,456</u></u>		

\* This item consists of gains/losses in respect of liability experience, excluding any changes in liabilities in respect of changes to the actuarial assumptions used.

**Defined Contribution Pension Scheme costs**

Group contributions to the defined contribution type pension schemes including overseas pension arrangements are:

	<u>2013</u>	<u>2012</u>
	£'000	£'000
Global Marine Personal Pension Plan	<u>1,048</u>	<u>989</u>
Global Marine Systems (Guernsey) Pension Plan	<u>7</u>	<u>20</u>
Total contributions	<u><u>1,055</u></u>	<u><u>1,009</u></u>

At 31 December 2013 contributions of £43,479 were due to be payable to the pension schemes (2012: £42,637)

**25 Related party transactions**

Advantage has been taken of the exemption contained within Financial Reporting Standard 8 'Related Party Transactions' not to disclose any transactions or balances that have been eliminated on consolidation.



## Bridgehouse Marine Limited

### Notes to the financial statements for the year ended 31 December 2013(continued)

a) Detail of transactions with the Group during the year and balances outstanding at the year-end are given in respect of the associated undertakings and joint ventures (as disclosed in note 14 above).

Year Ended 31 December 2013	NTT World Engineering Marine Inc £'000	International Cables Pte Limited £'000	Sino British Submarine Systems Co Ltd £'000	Sembawang Cable Depot Pte Limited £'000	Huawei Marine Networks Ltd £'000
<b>Profit and loss account</b>					
Turnover	—	—	1,499	—	7,532
Operating costs	—	—	(118)	—	(127)
Finance lease interest	—	(1,212)	—	—	—
Dividends received	—	1,836	878	249	—
<b>Balance Sheet</b>					
<b>Debtors:</b> amounts falling due within one year					
Trade debtors	—	—	363	—	158
<b>Creditors:</b> amounts falling due within one year					
Obligations under finance leases	—	(1,306)	—	—	—
Trade creditors	—	—	(1)	—	—
<b>Creditors:</b> amounts falling due after more than one year					
Obligations under finance leases	—	(26,836)	—	—	—
<b>Year Ended 31 December 2012</b>					
	NTT World Engineering Marine Inc £'000	International Cables Pte Limited £'000	Sino British Submarine Systems Co Ltd £'000	Sembawang Cable Depot Pte Limited £'000	Huawei Marine Networks Ltd £'000
<b>Profit and loss account</b>					
Turnover	83	—	1,017	—	6,839
Operating costs	—	—	—	—	(119)
Other Income	—	—	—	—	—
Finance lease Interest	—	(3,402)	—	—	—
Dividends received	—	22,370	—	1,211	—
<b>Balance Sheet</b>					
<b>Debtors:</b> amounts falling due within one year					
Trade debtors	2	—	137	—	2,050
<b>Creditors:</b> amounts falling due within one year					
Obligations under finance leases	—	(1,326)	—	—	—
Trade creditors	—	—	(25)	—	—
<b>Creditors:</b> amounts falling due after more than one year					
Obligations under finance leases	—	(29,723)	—	—	—

b) Details of transactions during, and balances outstanding at the end of, the year are given in respect of the payments made to companies that are related to either group and company directors or persons having a beneficial ownership interest in the group, namely Mr Andrew Ruhan and Mr Simon McNally.

During the year, the Group provided a loan of £1,500,000 (2012: Nil) to Mr Andrew Ruhan bearing interest of 1% per calendar month increasing to 1.5% after the repayment date of 15 November 2013. The loan and interest accrued were repaid in full on 11 February 2014.

## **Bridgehouse Marine Limited**

### **Notes to the financial statements for the year ended 31 December 2013(continued)**

During the year the Group provided a loan of £13,000,000 (2012: Nil) to Grenda Investments Limited, a company over which the directors believe Mr Andrew Ruhan has significant influence. This loan bears an Interest rate of 1% per calendar month increasing to 1.5% after the repayment date of 15 November 2013. The loan and interest accrued were repaid in full on 11 February 2014.

During the year the Company provided a loan of £4,000,000 (2012: Nil) to Bridgehouse Capital Operations Limited, a company in which Mr Gabriel Ruhan and Mr Stephen Scott were directors at the time of the transaction. At the year end the balance outstanding, including accrued interest at a rate of 15% per annum, was £4,250,000 (2012: Nil). Provision has been made in these accounts against this balance in full as the ability of Bridgehouse Capital Operations Limited to repay this is uncertain.

During the year, the Group purchased services of £nil (2012: £21,000) from Global Cable Recovery Limited, a company in which Mr Gabriel Ruhan is also a director.

During the year, the Group purchased services of £551,000 (2012: £3,492,000) from Subserve Pro Limited, a company connected to Mr Gabriel Ruhan and Mr Andrew Ruhan.

During the year the Group purchased services of £261,000 (2012: £230,000) from Orca Offshore Limited, a company connected to Mr Gabriel Ruhan and Mr Andrew Ruhan.

During the year the Group purchased services of £nil (2012: £2,000,000) from Glen Moar Properties Limited, a company connected to Mr Simon McNally.

During the year the Group provided services of £nil (2012: £309,000) to Bridgehouse Capital Operations Limited, a company connected to Mr Stephen Scott, Mr Gabriel Ruhan and Mr Andrew Ruhan.

During the year the Group provided services of £nil (2012: £34,000) to Sentrum India Limited, a company connected to Mr Stephen Scott, Mr Gabriel Ruhan and Mr Andrew Ruhan.

During the year the Group provided services of £122,000 (2012: £176,000) and purchased services of £2,405,000 (2012: £2,199,000) to / from Global Cable Technology Limited a 65% owned subsidiary.

### **26 Discontinued operations**

On 31 March 2014 the SPA settlement dispute for the sale of Global Marine Systems Energy Limited was determined to be at the value of £20.2m payable by Global Marine Systems Limited.

The loss on disposal in 2013 has been calculated as follows:

	£'000
Final determination	20,211
less provided in 2012	(12,000)
Charged to profit and loss account in the year	8,211
Accrued costs including legal fees and interest	251
Loss on disposal	<u>8,462</u>

**Bridgehouse Marine Limited****Notes to the financial statements for the year ended 31 December 2013(continued)****27 Ultimate controlling party**

At the Balance Sheet date the ultimate controlling party was Ballaugh Holdings Limited, registered in the British Virgin Islands.

Subsequent to the year-end Dr Gall Cochrane became the ultimate controlling party.

**28 Reconciliation of cash flow to movement in net debt**

	2013	2012
	£'000	£'000
(Decrease) / increase In cash	(3,784)	18,909
Cash outflow from change in debt	4,195	17,883
Movement in net debt resulting from cash flows	411	36,792
Exchange Translation	2,040	1,396
Movement in net debt	2,451	38,188
Opening net debt	(32,568)	(70,756)
Closing net debt	(30,117)	(32,568)

**29 Analysis of net debt**

	At 1 January 2013	Cash flow	Exchange adjustment	At 31 December 2013
	£'000	£'000	£'000	£'000
Cash at bank and in hand	29,767	(3,784)	—	25,983
Finance leases	(62,335)	4,195	2,040	(56,100)
Total	(32,568)	411	2,040	(30,117)

**Bridgehouse Marine Limited**  
**Directors' report for the year ended 31 December 2012**

The directors present their annual report on the affairs of Bridgehouse Marine Limited ("the Group" and "the company") registered number 04352407, together with the audited consolidated financial statements for the year ended 31 December 2012.

**Principal activities**

The group's principal subsidiary, Global Marine Systems Limited, is a leading provider of engineering and underwater services, responding to the subsea cable installation, maintenance and burial requirements of our customers around the world. With a fleet of vessels and specialised subsea trenching and burial equipment, we bring a 160 year legacy in deep and shallow water operations.

Global Marine Systems Limited offers cost effective solutions with consistently high service standards for our customers in the markets we operate. The Company is headquartered in the United Kingdom, with resources throughout Europe, Asia Pacific and the Americas.

On 15 November 2012, 100% of the shares in Global Marine Systems Energy Limited, a wholly owned subsidiary of Global Marine Systems Limited, were sold to Prysmian UK Limited.

**Results and dividends**

Turnover of the Group has increased by £15.9m from £113.4m in 2011 to £129.3m in 2012, with operating losses reducing by £3.0m from £8.2m to £5.2m. The management of the project risks within our contracts in 2012 along with the sale of Global Marine Systems Energy Limited on 15<sup>th</sup> November 2012 has resulted in much greater stability in the continuing operations of the business. No dividend is proposed (2011: £Nil).

The statement of total recognised gains and losses includes a loss on exchange of £1.0m in respect of the retranslation of assets, liabilities and investments held in foreign currencies.(2011: gain of £1.5m)

**Review of business and future developments**

The stable revenue stream that the Group has established in Telecommunications maintenance and vessel chartering allows it to build for growth in the Telecommunications and Oil & Gas markets respectively, both directly and via its established partnerships with Sino-British Submarine Systems and Huawei Technologies.

	<u>2012</u>	<u>2011</u>
	£'000	£'000
Group operating loss	<b>(5,193)</b>	(8,227)
Exceptional items – contract losses	<b>10,375</b>	14,252
Group operating profit excluding exceptional items	<b>5,182</b>	6,025

On 15 November 2012, 100% of the shares in Global Marine Systems Energy Limited were sold by the group's principal trading subsidiary, Global Marine Systems Limited, to Prysmian UK Limited. With the exception of the Cable Enterprise, Global Marine Systems Limited retains ownership of all vessels previously employed in this business and currently charters two vessels to Prysmian UK Limited.

As prescribed under the terms of the Sale and Purchase Agreement ('SPA') the purchaser reviewed the 'closing accounts' in December 2012 which resulted in the purchaser submitting a claim under the SPA for a reduction in the overall purchase price.

## Bridgehouse Marine Limited

### Directors' report for the year ended 31 December 2012(continued)

At the date of the approval of the financial statements the outcome of the dispute has yet to be determined. Therefore, based on what they consider to be a reliable estimate of the likely outcome of the final determination, the Directors have made a provision of £12m against the sale price.

### Key Performance Indicators (KPIs)

	2012 Result	2011 Result
<b>Financial KPI's</b>		
Adjusted EBITDA	<b>£24.8 million</b>	£19.3 million
Cash Generation	<b>£18.9 million</b>	£(14.3) million
Return on investment – Adjusted EBITA	<b>0.4%</b>	(7.5)%
<b>Non-Financial KPIs</b>		
Lost Time Injury Frequency Rate (LTIFR)	<b>0.30</b>	0.79

#### **Adjusted Earnings before interest, tax, depreciation and amortisation (EBITDA)**

Adjusted EBITDA has been calculated as profit / (loss) on ordinary activities before interest, tax, depreciation, amortisation, exchange, impairment of fixed assets and gain / loss on disposal of assets and investments. It is measured before deducting operating exceptional items. During 2012 adjusted EBITDA has increased by £5.5m.

#### **Cash generation**

Cash generation is defined as the difference in opening and closing cash balances. In 2012 the cash balance has increased by £18.9m due primarily to the sale of Global Marine Energy Limited in November 2012.

#### **Returns on investment**

Return on investment – is defined as % of earnings before interest, tax amortisation, exchange, impairment of fixed assets and gain / loss on disposal of assets and investments ("EBITA") divided by average capital employed. Adjusted EBITA has been calculated as profit / (loss) on ordinary activities before interest, tax amortisation, exchange, impairment of fixed assets and gain / loss on disposal of assets and investments. During 2012 the return on investment – adjusted EBITA percentage has increased by 7.9 points.

#### **Non-financial KPI's**

##### **Lost time injury frequency rate (LTIFR)**

Health and safety is paramount in our business. Not only is it vitally important to provide employees with a safe place to work, but also any accident is disruptive to the running of the business.

The Group continually reviews and reports all accidents and injuries and in order to benchmark its safety performance against other companies in the industry, the Group reports safety statistics as adopted by the international Marine Contractors Association, of which the Group is a member.

The LTIFR is measured as; 
$$\frac{\text{Lost time injuries} \times 1,000,000}{\text{Hours Worked}}$$

**Bridgehouse Marine Limited**  
**Directors' report for the year ended 31 December 2012(continued)**

Lost time injuries are defined as:

"An accident or injury that prevents a person conducting their normal job from the day following the accident for a period of more than 3 days."

The LTIFR has decreased from 0.79 in 2011 to 0.30 in 2012. New procedures were introduced during 2011-12 and these have contributed to the reduction of lost time.

The Group has continued with its policy of focused leadership in the area of health and safety. Incidents which are not in themselves accidents but "near misses" are strongly encouraged to be reported and these incidents continue to provide lessons to be learnt which have in turn prevented further incidents and accidents from occurring.

#### **Going Concern**

Having reviewed the Group's cash flow projections for the next 12 months after the date of signing the financial statements, the directors are confident they will have adequate resources to meet the requirements of the business for the foreseeable future. The directors have therefore prepared these consolidated financial statements on a going concern basis.

#### **Quality systems and environment responsibilities**

The Group continues to demonstrate its commitment to quality management and the environment by gaining recertification to ISO18001, ISO9001 and ESN 14001 during the year. We also retained the RoSPA Presidents Award for the 13<sup>th</sup> consecutive year.

#### **Principal risks and uncertainties**

The principal business risk acknowledged by the Group is the impact of any reduced demand in the global market for subsea related services. However, Global Marine Systems Limited is well positioned in the telecommunications maintenance market with three long term contracts for at least 3-4 years which will offset any potential volatility encountered in the installation market. Two vessels have also been adapted to address the Offshore Energy market to which they are currently on charter and the Group continues to seek further opportunities in other markets. The Directors are confident that there are sufficient opportunities for growth in the Telecommunications and Oil & Gas markets.

#### **Financial risk management**

The Group's operations expose it to a variety of financial risks that include foreign exchange rate risk, liquidity risk, and credit risk. The Group has in place a risk management process that seeks to limit the adverse effects of these risks on the financial performance of the Group.

##### ***Foreign exchange rate risk***

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar, the Euro and the Singapore Dollar. Foreign exchange risk arises from current commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The Group manages these risks in a number of ways but primarily by attempting to match assets and liabilities and income and costs denominated in the relevant foreign currencies. As and when surplus funds are generated in foreign currencies they are sold in the spot market. The Group monitors this risk on a regular basis.

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**Bridgehouse Marine Limited****Directors' report for the year ended 31 December 2012(continued)****Liquidity Risk**

As with all businesses a key risk to the business is liquidity. The Group maintains medium term debt finance secured on a number of its cable-ships, which, together with cash generated from operations, provide sufficient available funds for future expansion and investment.

**Credit Risk**

Credit risk is the potential loss arising from any failure by the customers or debtors to fulfil their obligations as and when these obligations fall due. The Group has implemented policies that require appropriate credit checks on potential customers before sales are made. All cash and deposits are placed with reputable "High street" financial institutions. The Group has no significant concentration of credit risk.

**Post Balance Sheet Events**

On 31 July 2013 the company received a short term loan of £4.5m from its subsidiary Global Marine Systems Limited. This loan is repayable on demand and is non-interest bearing. On 6<sup>th</sup> August 2013 the Group made a short term loan of £1.25m to Mr A Ruhan a shareholder of the group holding company. Interest on this loan is charged at 1% per calendar month. On 22 August 2013, the Group made a short term secured loan of £13m to Grenda Investments Limited. Interest on this loan is charged at 1% per calendar month.

**Research and development**

Technical development is an important part of upgrading and improving techniques for cable laying, cable jointing, cable protection and most recently the efficient transmission of Subsea telecommunication data. The Group remains committed to these principles in all that it does and is continually developing new technology in-house and with its partners.

**Directors**

The directors who held office during the year and up to the date of these financial statements were as follows:

Gabriel Martin Ruhan (appointed 4<sup>th</sup> April 2012)

Stephen Derrick Scott (appointed 5<sup>th</sup> April 2012)

Andrew Joseph Ruhan (resigned 24<sup>th</sup> September 2012)

Simon John McNally (resigned 24<sup>th</sup> September 2012, reappointed 4<sup>th</sup> December 2013)

Simon Nicholas Cooper (resigned 22<sup>nd</sup> November 2012, reappointed 4<sup>th</sup> December 2013)

**Directors' indemnities**

Qualifying third party indemnity provisions (as defined by Section 236 Companies Act 2006) for the benefit of the directors were maintained throughout the year and remain in force as at the date of approving the Directors' report.

**Political and charitable donations**

During the year the Group made charitable donations of £3,325 (2011: £495) principally to local charities serving the communities in which the Group operates. The Group made no political donations (2011: £nil).

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**Bridgehouse Marine Limited**  
**Directors' report for the year ended 31 December 2012(continued)**  
**Employees**

The Group is committed to employment policies, which follow best practice, based on equal opportunities for all employees, irrespective of sex, race, colour, disability or marital status.

Applications for employment by disabled persons are always considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of a member of staff becoming disabled, every effort is made to ensure that their employment with the company continues and the appropriate training is arranged. It is the policy of the company that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

The Group is also committed to providing employees with information on matters of concern to them on a regular basis, so that the views of employees can be taken into account when making decisions that are likely to affect their interests. The Group encourages the involvement of employees by means of regular updates issued by the board on key company issues, financial information and other statistics. Quarterly surveys are also co-ordinated by the Group to obtain employee feedback on issues within the Group.

**Elective regime**

The Group has passed elective resolutions in accordance with Section 379A of the Companies Act 1985 as amended ("the Act") to dispense with the formalities of:

- the laying of financial statements before the Group in general meeting (Section 252 of the Act),
- the holding of annual general meetings (Section 366A of the Act), and
- the obligation to appoint auditors annually (Section 386 of the Act).

Section 253(2) gives members the right to require the laying of financial statements before the Group in general meeting. To exercise such right, a member must give notice in writing to that effect, deposited at the, registered office of the Group, within 28 days of the day on which the report and financial statements are sent out, in accordance with Section 238(1) of the Act.

**Statement of directors' responsibilities**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the Group and parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practise (United Kingdom Accounting Standards and applicable law). 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 Group and the company and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
  - make judgements and accounting 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;
  - prepare the financial statements on the going concern basis unless it is inappropriate to presume the company will continue in business.
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**Bridgehouse Marine Limited**

**Directors' report for the year ended 31 December 2012(continued)**

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 the Group 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 the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**Statement of disclosure of information to auditors**

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

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

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

**Independent auditors**

BDO LLP was appointed as auditors by the directors during the period and have expressed their willingness to continue in office.

On behalf of the board



Gabriel Ruhan  
**Director**

16 December 2013

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## **Bridgehouse Marine Limited Independent auditors report to the members of Bridgehouse Marine Limited**

We have audited the financial statements of Bridgehouse Marine Limited for the year ended 31 December 2012 which comprise the Group profit and loss account, the Group statement of total recognised gains and losses, the Group note on historical cost profit and losses, the Group and Company balance sheets, the Group cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

### **Respective responsibilities of directors and auditors**

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

### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2012 and of the group's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Emphasis of matter – uncertain outcome of Expert determination on Sale and Purchase Agreement dispute**

We draw your attention to note 19 to the financial statements which describes the uncertainty in respect of the outcome of a Sale and Purchase Agreement dispute where the purchaser is claiming a reduction in the price paid for one of the Group's subsidiaries, Global Marine Systems Energy Limited. Our opinion is not modified in this respect.

### **Opinion on other matters prescribed by the Companies Act 2006**

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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**Bridgehouse Marine Limited Independent auditors report to the members of Bridgehouse Marine Limited(continued)**  
**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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.



Raymond Adams (Senior statutory auditor)  
For and on behalf of BDO LLP, statutory auditor  
Ipswich

16/12/13

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

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**Bridgehouse Marine Limited**

**Company balance sheet as at 31 December 2012**  
**Company Number 04352407**

	Note	£'000	2012 £'000	£'000	2011 £'000
<b>Fixed assets</b>					
Investments	14		<u>1,271</u>		<u>1,271</u>
			<u>1,271</u>		<u>1,271</u>
<b>Current assets</b>					
Debtors: amounts falling due within one year		—		—	
<b>Creditors:</b> amounts falling due within one year	17	<u>(69)</u>		<u>(58)</u>	
<b>Net current liabilities</b>			<u>(69)</u>		<u>(58)</u>
<b>Net assets</b>			<u>1,202</u>		<u>1,213</u>
<b>Capital and reserves</b>					
Called up share capital	20		<u>1,266</u>		<u>1,266</u>
Profit and loss account	21		<u>(64)</u>		<u>(53)</u>
<b>Shareholders' funds</b>	22		<u>1,202</u>		<u>1,213</u>

The financial statements on pages 9 to 45 were approved by the board of directors and authorised for issue on 16 December 2013 and signed on its behalf by:



Gabriel Ruhan  
Director



**Bridgehouse Marine Limited Group profit and loss account for the year ended 31 December 2012**

		Continuing Operations 2012	Discontinued operations 2012	Total 2012	Total 2011 As restated £'000
	Note	£'000	£'000	£'000	
Turnover (including share of joint ventures and associates)		150,570	36,109	186,688	156,754
Less: share of joint ventures' turnover		(643)	—	(643)	(713)
share of associates' turnover		(47,630)	(9,144)	(56,774)	(42,649)
Group turnover	3	102,306	26,965	129,271	113,392
Other operating (charges) / credits	5	(1,938)	(1,002)	(2,940)	574
Other operating costs (net)	4	(93,109)	(28,040)	(121,149)	(107,941)
Exceptional items – contract fosses	4	—	(10,375)	(10,375)	(14,252)
Operating costs		(95,047)	(39,417)	(134,464)	(121,619)
<b>Group operating profit / (loss)</b>	5	7,259	(12,452)	(5,193)	(8,227)
Share of joint ventures' operating profit		114	—	114	366
Share of associates' operating profit		3,366	1,010	4,387	1,085
Profit on sale of tangible fixed assets		657	3	660	824
Profit on sale of investments	28	—	4,228	4,228	—
Interest receivable and similar income	8				
- Group		77	—	77	189
- Joint ventures		604	—	604	764
- Associates		60	1	61	142
		741	1	742	1,095
Interest payable and similar charges	9				
- Group – Interest payable		(5,652)	—	(5,652)	(5,631)
- Exchange loss		(346)	—	(346)	(549)
- Joint ventures		(4)	—	(4)	—
- Associates		(421)	(1)	(422)	(401)
		(6,423)	(1)	(6,424)	(6,581)
Other finance credits	24	369	—	369	751
<b>Profit / (loss) on ordinary activities before taxation</b>		6,094	(7,211)	(1,117)	(10,687)
Tax on profit (loss) on ordinary activities	10				
- Group		65	—	65	(41)
- Joint ventures		(28)	—	(28)	(47)
- Associates		(379)	(424)	(803)	(434)
<b>Profit / (loss) for the financial year</b>	21	5,752	(7,635)	(1,883)	(11,209)

**Bridgehouse Marine Limited**  
**Group statement of total recognised gains and losses for the year ended 31 December 2012**

		<u>2012</u>	<u>2011</u>
	<i>Note</i>	£'000	As restated £'000
<b>Loss for the financial year</b>			
Group loss for the financial year		(5,792)	(12,684)
Share of joint ventures' profit for the financial year		686	1,083
Share of associates' profit for the financial year		3,223	392
		<u>(1,883)</u>	<u>(11,209)</u>
Actuarial loss recognised in pension schemes	24	(5,718)	(14,944)
Revaluation of fixed assets		(6,227)	15,034
Exchange adjustments offset in reserves (translation of assets, liabilities and foreign investments)	25	(990)	1,461
<b>Total recognised loss for the year</b>		<b>(14,818)</b>	<b>(9,658)</b>
Prior year adjustment	11	11,524	
<b>Total losses recognised since last annual report and accounts</b>		<b>(3,294)</b>	

**Group note on historical cost profits and losses for the year ended 31 December 2012**

		<u>2012</u>	<u>2011</u>
		£'000	As restated £'000
Reported loss on ordinary activities before taxation		(1,117)	(10,687)
Difference between actual and historical cost depreciation charge		2,917	3,967
<b>Historical cost profit / (loss) on ordinary activities before taxation</b>		<b>1,800</b>	<b>(6,720)</b>
Taxation		(766)	(522)
<b>Historical cost profit / (loss) on ordinary activities after taxation</b>		<b>1,034</b>	<b>(7,242)</b>

**Bridgehouse Marine Limited**  
**Group cash flow statement for the year ended 31 December 2012**

	Note	£'000	<u>2012</u> £'000	£'000	<u>2011</u> £'000
<b>Reconciliation of operating loss to net cash inflow from operating activities</b>					
Operating loss	5	(5,193)		(8,227)	
Depreciation on tangible fixed assets		14,057		13,321	
Impairment on fixed asset investment		518		814	
Amortisation on intangible assets		(1,495)		(1,833)	
Difference between pension charge and cash contributions		(1,726)		(1,303)	
Currency translation differences		946		(439)	
Decrease / (increase) in inventories		1,492		(972)	
Increase in receivables		(11,806)		(3,114)	
Increase in creditors		7,301		8,079	
(Decrease) / increase in provisions		(3,637)		4,550	
<b>Net cash inflow from operating activities</b>			<b>457</b>		<b>10,876</b>
<b>Dividends from joint ventures / associates</b>			<b>23,687</b>		<b>4,489</b>
<b>Returns on investment and servicing of finance</b>					
Interest received		77		189	
Interest paid		(5,679)		(5,658)	
<b>Net cash outflow from returns on investment and service of finance</b>			<b>(5,602)</b>		<b>(5,469)</b>
<b>Taxation</b>					
UK taxes paid			(44)		(23)
<b>Capital expenditure and financial investment</b>					
Purchase of plant and equipment		(29,719)		(18,513)	
Proceeds from sale of fixed assets		9,448		827	
Purchase of investment		(506)		(594)	
<b>Net cash outflow from capital expenditure and financial investment</b>			<b>(20,777)</b>		<b>(18,280)</b>
<b>Acquisitions and disposals</b>					
Sale of business operations	28	32,367		—	
Cash disposed of with business operation	28	(537)		—	
Sale of investment in associated undertaking	28	7,241		—	
<b>Net cash inflow from acquisitions and disposals</b>			<b>39,071</b>		
<b>Finance</b>					
Repayment of finance lease capital		(17,883)		(5,557)	
<b>Net cash outflow from financing</b>			<b>(17,883)</b>		<b>(5,557)</b>
<b>Management of liquid resources Increase / (decrease) in cash</b>	30		<u><u>18,909</u></u>		<u><u>(13,964)</u></u>

## **1 Accounting policies**

### **Basis of accounting**

The financial statements are prepared on the going concern basis under the historical cost convention, as modified by the revaluation of cable-ships and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. The principal accounting policies, which have been applied consistently throughout the year, are set out below.

### **Basis of preparation**

The Group financial statements consolidate the financial statements of the company and its subsidiary undertakings, joint ventures and associate undertakings for the year ended 31 December 2012. Subsidiary undertakings are entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Associate undertakings are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed. The Group's subsidiary undertakings, associated undertakings and joint ventures (together "the Group companies") have adopted uniform accounting policies. Acquisitions are accounted for under the acquisition method. All profits or losses on intra Group transactions have been eliminated.

The Group's associate undertakings and joint ventures are accounted for in accordance with Financial Reporting Standard No 9 'associates and joint ventures', with associates included using the equity method of consolidation and joint ventures included using the gross equity method of consolidation. The consolidated profit and loss account includes the Group's share of associates' and joint ventures' profits less losses while the Group's share of the net assets of the associates and joint ventures is shown in the consolidated balance sheet. For entities which have non co-terminus year ends, results are consolidated on the basis of management accounts information. The Group's share of profits or losses on transactions with associates and joint ventures has been eliminated.

### **Going Concern**

Having reviewed the Group's cash flow projections for the next 12 months after the date of signing of the financial statements, the directors are confident they will have adequate resources to meet the requirements of the business for the foreseeable future. The directors have therefore prepared these consolidated financial statements on a going concern basis.

### **Goodwill**

Goodwill arising on an acquisition of a trade/subsidiary undertaking is the difference between the fair value of the consideration paid and the fair value of the assets and liabilities acquired.

Positive goodwill is capitalised and amortised through the profit and loss account over the directors' estimate of its useful economic life. Impairment tests of the carrying of goodwill are undertaken:

- at the end of the full financial year following acquisition,
- in other years if events or changes in circumstances indicate that the carrying value may not be recoverable.

Where the fair value of the assets and liabilities acquired exceeds the fair value of the consideration, the difference is treated as negative goodwill, and is capitalised and amortised through the profit and loss account over the period over which the non-monetary assets acquired are consumed. In the case of fixed assets this is the period over which they are depreciated.

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## **Bridgehouse Marine Limited Notes to the financial statements for the year ended 31 December 2012(continued)**

### **Tangible fixed assets**

Tangible fixed assets with the exception of cable-ships are stated at cost, net of depreciation and any provision for impairment. Cable-ships are stated at valuation net of depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Cost includes finance costs incurred prior to the asset being available for use

Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost less estimated residual value, of each asset on a straight line basis over its estimated useful life as follows:

Cable-ships and submersibles	–	up to 30 years
Plant and Motor vehicles	–	3 to 20 years
Leasehold land and buildings	–	over the period of the lease

Plant includes equipment on the cable-ships that is portable and can be moved around the fleet. Plant also includes computer equipment. The expected useful lives of the assets of the business are reassessed periodically.

Assets under construction are not depreciated until they are complete and available for use; when they are reclassified to an asset class and subject to the depreciation rates set out above.

Financial Reporting Standard 15 requires fixed assets which are carried at re-valued amounts to be shown at their current value at the balance sheet date. To achieve this cable-ships are subject to a full external valuation every five years with an interim valuation carried out in the third year of this cycle. At the end of 2012 a full valuation was undertaken on the cable-ships.

An impairment provision is made whenever there is an indication that net book value is greater than the valuation. Impairment losses are charged to the revaluation reserve to the extent that a previous gain has been reversed and thereafter to the profit and loss account as incurred. In the event of a subsequent upwards revaluation of a previously impaired asset, the provision is reversed through operating expenses in so far as it was originally charged to the profit and loss account.

### **Revaluation reserve**

Any surpluses on revaluation of the cable-ships are recognised in the revaluation reserve, except where they reverse previously charged impairment losses, in which case they are recorded in the profit and loss account. Depreciation relating to the re-valued part of the asset is transferred to the profit and loss account as a movement on reserves.

### **Turnover**

Turnover represents amounts receivable for goods and services provided in the normal course of business, net of trade discounts, VAT and other sales related taxes.

Turnover of the business for each market is treated consistently without any differentiation between market sectors, and apart from long-term contracts, revenue is recognised on an accruals basis.

Turnover and profit on long-term contracts are recognised in the financial statements according to the overall state of completion of the contract reached during the period. Amounts recoverable on long term contracts, which are included in accrued income, are stated at the sales net value of the work done less amounts received as progress payments on the account. Excess progress payments are included in deferred income as payments on account. Cumulative costs incurred net of amounts transferred to cost of sales, less provision for contingencies and anticipated future losses on contracts, are included as long term contract balances in stock and work in progress.

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### **Investments**

The Group's investments in subsidiary undertakings, associate undertakings and joint ventures are stated at cost less any provision for impairment. Impairment reviews are carried out by management should any events occur or business circumstances change which indicate that recoverable amount is below carrying value. Any impairment provisions are charged to the company profit and loss account.

The company has certain contractual agreements with other participants in unincorporated entities that create an entity carrying on a trade or business of its own (joint arrangements — non entity). The company includes the results of these entities within its own results.

The Group's investments in joint ventures and associate undertakings are accounted for using the Equity method.

### **Foreign currency**

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. Exchange differences are included in the profit and loss account.

The results of overseas operations are translated at average rates of exchange during the year and the balance sheet translated into sterling at the rate of exchange ruling on the balance sheet date. Exchange differences that arise from translation of the opening net assets in foreign subsidiary's undertakings and any other exchange differences are taken to the profit and loss account reserves.

### **Leases**

Assets held under finance leases and other similar contracts, which confer rights and obligations similar to those attached to owned assets are capitalised as tangible fixed assets and are depreciated over the shorter of their useful lives or the lease period. The capital elements of future asset lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the leases to produce a constant rate of charge on the balance of capital repayments outstanding.

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term, except where the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate is shorter than the full lease term, in which case the shorter period is used.

### **Sale and leaseback**

Sale and leaseback arrangements, by means of a finance lease are accounted for in the same manner as a standard finance lease agreement. On sale, the asset is not removed from the fixed assets and any profit or loss on disposal is deferred and amortised over the useful life of the asset.

### **Leased assets – Lessor**

Annual rentals from operating leases are credited to the profit and loss account on a straight line basis over the term of the lease, with the leased asset accounted for in accordance with the policy for tangible fixed assets.

### **Pensions**

The Group operates various pension schemes comprising both defined benefit schemes and defined contribution schemes. The company also makes contributions on behalf of employees whom are members of the Merchant Navy Officers Pension Fund (MNOFP).

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## **Bridgehouse Marine Limited Notes to the financial statements for the year ended 31 December 2012(continued)**

For the defined benefit schemes and the MNOPF scheme the amount charged to operating profit are the current service costs and the gains and losses on settlements and curtailments. These are included as part of staff costs. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until the vesting occurs. The interest cost and the expected return of assets are shown as a net amount of other finance cost or income adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

Defined benefit schemes are funded with the assets of the scheme held separately from those of the Group, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date.

The resulting defined benefit asset or liability is presented separately after net assets on the face of the balance sheet.

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

### **Stocks and work in progress**

Stocks are valued at the lower of cost and net realisable value on a first in first out basis. Provisions for deterioration and obsolescence are made where appropriate and are charged to the profit and loss account in operating expenses.

Short term work in progress on contracts is stated at cost less foreseeable losses. These costs include only direct labour and expenses incurred to date and exclude any allocation of overheads. The policy for long term work in progress contracts is disclosed within the Turnover accounting policy.

### **Research and development**

Research and development expenditure is written off to the profit and loss account as incurred. Development expenditure is also written off as incurred.

### **Taxation**

The company's principle trading subsidiary, Global Marine Systems Limited, re-entered into the UK tonnage tax regime on 1 January 2011 for a period of ten years. Under the tonnage tax regime the current year tax charge arising on qualifying activities is calculated by reference to net tonnage of the qualifying ships owned by the Group.

This method replaces both the tax-adjusted commercial profit/loss on qualifying shipping trade and chargeable gains/losses made on disposal of tonnage tax assets as calculated in previous periods. To the extent that the company generates profits/losses, which do not qualify for inclusion under the above regime, they will be taxable under general UK corporation tax principles.

Deferred taxation should not generally arise in respect of profits/losses within the tonnage tax regime. However, where the Group generates profits/losses which do not qualify for inclusion under the above regime, deferred taxation will be provided on income and expenditure dealt with for taxation purposes in periods different from those for accounting purposes, to the extent that it is probable that a liability or asset will crystallise. Deferred tax balances are not discounted.

### **Other operating income**

Other operating income consists of income from miscellaneous asset sales not considered to be part of the core operating business. Revenue and costs are recognised on completion of the sale or event as described in the individual contract.

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## Bridgehouse Marine Limited Notes to the financial statements for the year ended 31 December 2012 (continued)

### Exceptional items

Exceptional items are those material items of income and expenditure which the Group has disclosed separately because of their quantum or incidence so as to give a clearer understanding of the Group's financial performance.

### 2 Corresponding figures

The analysis between continuing and discontinued operations for the year ended 31 December 2011 is shown below. Activities discontinued in the year ended 31 December 2012 are shown as part of the discontinued activities. Further details on discontinued operations are given in note 28.

	<u>Continuing</u>	<u>Discontinued</u>	<u>Total</u>
	£'000	£'000	£'000
<b>Turnover (including share of joint ventures and associates)</b>	110,115	46,639	156,754
Less: share of joint ventures' turnover	(713)	—	(713)
share of associates' turnover	(26,264)	(16,385)	(42,649)
<b>Group turnover</b>	83,138	30,254	113,392
Other operating (charges) / credits	574	—	574
Other operating costs	(79,308)	(28,633)	(107,941)
Exceptional items – contract losses	—	(14,252)	(14,252)
Operating costs	(78,734)	(42,885)	(121,619)
<b>Group operating profit / (loss)</b>	4,404	(12,631)	(8,227)

### 3 Turnover

Turnover, results and net assets are principally derived from telecommunications, renewable energy, oil & gas, and science and research. Contracts within telecommunications include long term agreements for the provision of maintenance of submarine telecommunications cables as well as associated services for the installation either directly with cable owners or indirectly by providing charter services, including transactions with Group companies and joint ventures. Turnover from renewable energy and oil & gas are serviced based and include the installation and associated services in connection with the laying of marine power cables to wind farms and gas pipelines.

Turnover including JVs & Associates as analysed by geographical location of works undertaken in percentage terms is as follows;

	<u>2012</u>	<u>2011</u>
	%	%
United Kingdom	18.6	24.2
Europe, excluding the United Kingdom	6.3	6.0
Asia Pacific	55.6	55.1
Americas	19.5	14.7

Part of the Group's success has been based on the substitutability of services between market sectors. Cable-ships by nature are also mobile and easily transit between regions as required. Business is contracted to optimise the combination of available business and asset mix and fit at the time of contracting. For this reason, the directors consider that the disclosure of assets and profitability against any particular geographical segments and turnover by market sector would be misleading and seriously prejudicial to the interests of the Group.

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4 Operating costs

	2012 £'000	2011 £'000
Change in stocks of finished goods and in work in progress	2,116	(972)
Raw materials and consumables	1,410	538
Impairment of fixed asset investment (note 14)	518	814
Other external charges	75,878	70,929
Wages and salaries (note 7)	25,436	22,160
Social security costs (note 7)	1,180	951
Defined benefit pension current service cost (note 7)	59	53
Defined contribution pension cost (note 7)	1,009	1,093
Pension scheme costs borne by the Group (note 7)	981	887
Depreciation of tangible fixed assets		
- Owned	6,761	6,860
- Assets under finance lease	7,296	6,461
Amortisation of negative goodwill	(1,495)	(1,833)
	<u>121,149</u>	<u>107,941</u>
Exceptional items	10,375	14,252
Total	<u><u>131,524</u></u>	<u><u>122,193</u></u>

The exceptional item relates to one-off losses incurred on the Globe Tech 1 and Gwynt Y Mor projects in Global Marine Systems Energy Limited. In 2011 the losses related to the London Array and Thornton Bank wind farm installation contracts.

5 Operating profit / (loss)

	2012 £'000	2011 £'000
<b>Operating profit /(loss) is stated after charging / (crediting):</b>		
Operating lease rentals:		
- Cables and other plant	8,567	15,034
- Other	5,418	2,193
Income from operating leases	(2,697)	—
Profit on disposal of assets	(660)	(824)
Other operating (charges) / credits – (loss) / profit on exchange	(2,943)	439
Current Auditors remuneration:		
- Fees payable to the company's auditor for the audit of the company's annual financial statements	—	—
- Fees payable to the company's auditor and its associates for other services:		
- The audit of the company's subsidiaries, pursuant to legislation	154	—
- Tax services	25	—
Prior Auditors remuneration:		
- Fees payable to the company's auditor for the audit of the company's annual financial statements	—	207
- Fees payable to the company's auditor and its associates for other services:		
- The audit of the company's subsidiaries, pursuant to legislation	5	11
- Tax services	—	49
- Advisory services	—	60
- Fees in respect of the Global Marine Systems Limited pension schemes	—	13

6 Remuneration of directors

	Group	
	2012	2011
	£'000	£'000
Directors' emoluments in respect of qualifying services were:		
Aggregate emoluments	<b>178</b>	<b>1</b>

There were no directors emoluments paid as fees relating to director services provided to the Group through related party companies (2011: nil)

7 Employee Information

The average monthly number of persons employed by the Group (including directors) during the year, analysed by category, was as follows:

	Group	
	2012	2011
	Number	Number
Marine	<b>249</b>	241
Operational support	<b>180</b>	162
Sales and administration	<b>44</b>	47
	<b>473</b>	450
	<b>2012</b>	2011
	£'000	£'000

The aggregate payroll costs were as follows:

Wages and salaries	<b>25,436</b>	22,160
Social security costs	<b>1,180</b>	951
Other pension costs	<b>1,068</b>	1,146
Pension scheme costs borne by the Group	<b>981</b>	887
	<b>28,665</b>	25,144
	<b>2012</b>	2011
	£'000	£'000

Other pension costs comprise:

Contributions paid to Defined Contribution pension schemes (note 24)	<b>1,009</b>	1,093
FRS 17 Current Service Cost – MNOPF fund (note 24)	<b>59</b>	53
	<b>1,068</b>	1,146

The company did not employ any persons during the year and therefore had no payroll costs.

**8 Interest receivable and similar income**

Group	2012 £'000	2011 £'000
Interest receivable on fixed term loan	73	125
Interest receivable on bank deposits	4	64
	<u>77</u>	<u>189</u>
<b>Joint ventures and Associates</b>		
Interest receivable on bank deposits – Joint ventures	604	764
Interest receivable on bank deposits – Associates	61	142
	<u>742</u>	<u>1,095</u>

**9 Interest payable and similar charges**

Group	2012 £'000	2011 £'000
Interest payable on loans	441	—
Finance charges in respect of finance leases and hire purchase	5,211	5,631
	<u>5,652</u>	<u>5,631</u>
Exchange losses	346	549
<b>Joint ventures and Associates</b>		
Amounts payable on bank loans and overdrafts – Joint ventures	4	—
Amounts payable on bank loans and overdrafts – Associates	422	401
	<u>6,424</u>	<u>6,581</u>

**10 Tax loss on profit / (loss) on ordinary activities**

	2012 £'000	2011 £'000
UK current taxation	15	40
Overseas taxation	—	(7)
Overseas deferred taxation – Origination and reversal of timing differences	(80)	8
	<u>(65)</u>	<u>41</u>
Share of tax in		
- Joint ventures	28	47
- Associates	803	434
	<u>766</u>	<u>522</u>

**Bridgehouse Marine Limited Notes to the financial statements for the year ended 31 December 2012(continued)**

On 1 January 2011, the Group renewed its election into the UK Tonnage Tax regime for a period of 10 years. This regime calculates tax payable on qualifying shipping activities in accordance with the net tonnage of qualifying ships, rather than the adjustment of commercial profits.

A reconciliation of the loss before tax at the standard corporation tax rate to the credit for the year is not disclosed as the Group is within the tonnage tax regime, under which taxation is not related to profits and losses.

**11 Prior year adjustment**

It has come to the attention of the directors that the treatment of leases as operating leases by the joint venture International Cablesip Pte Limited is inconsistent with the group accounting policy. Previously no adjustment has been made on consolidation to align accounting policies which has resulted in a prior period adjustment totalling £11,524,000. All comparatives have been restated.

The effects of the change on the financial statements for the year ended 31 December 2011 are summarised below:

	Year ended 31 December 2011 £'000
<b>Profit and loss account</b>	
Decrease in share of joint ventures' operating profit	(1,488)
Increase in interest receivable and similar income – joint ventures	701
Decrease in profit for the financial period	<u>(787)</u>
	31 December 2011 £'000
<b>Balance sheet</b>	
Investments in joint ventures	
Increase in share of gross assets	11,524
Increase in net assets	<u>11,524</u>

**12 Intangible fixed assets**

Group	Negative goodwill £'000
<b>Cost</b>	
At 1 January 2012	(57,120)
Disposal	<u>—</u>
At 31 December 2012	<u>(57,120)</u>



**Bridgehouse Marine Limited Notes to the financial statements for the year ended 31 December 2012 (continued)**

Group	Negative goodwill £'000
<b>Accumulated amortisation</b>	
At 1 January 2012	42,810
Provided in the year	1,495
Disposal	—
At 31 December 2012	<u>44,305</u>
<b>Net Book Value</b>	
<b>At 31 December 2012</b>	<u>(12,815)</u>
At 31 December 2011	<u>(14,310)</u>

The company has no intangible fixed assets.

**13 Tangible assets**

Group	Cables ships and submersibles £'000	Assets under construction	Motor vehicles and plant £'000	Land & Buildings Short leasehold £'000	Total £'000
<b>Cost or valuation</b>					
At 1 January 2012	322,772	10,688	19,326	13,074	365,860
Exchange rate revaluation	(2,151)	(5)	2	12	(2,142)
Additions	1,887	21,369	6,440	23	29,719
Disposals	(57,382)	(621)	(12,564)	(613)	(71,180)
Revaluation	(164,416)	—	(434)	—	(164,850)
Reclassification	30,361	(30,542)	181	—	—
At 31 December 2012	<u>131,071</u>	<u>889</u>	<u>12,951</u>	<u>12,496</u>	<u>157,407</u>
<b>Accumulated Depreciation</b>					
At 1 January 2012	198,626	—	18,969	8,707	226,302
Exchange rate revaluation	(672)	—	2	12	(658)
Provided for the year	12,979	—	720	358	14,057
Disposals	(20,594)	—	(6,709)	(612)	(27,915)
Revaluation	(158,189)	—	(434)	—	(158,623)
Reclassification	(16)	—	16	—	—
At 31 December 2012	<u>32,134</u>	<u>—</u>	<u>12,564</u>	<u>8,465</u>	<u>53,163</u>
<b>Net book value</b>					
<b>At 31 December 2012</b>	<u>98,937</u>	<u>889</u>	<u>387</u>	<u>4,031</u>	<u>104,244</u>
At 31 December 2011	<u>124,146</u>	<u>10,688</u>	<u>357</u>	<u>4,367</u>	<u>139,558</u>

**Bridgehouse Marine Limited Notes to the financial statements for the year ended 31 December 2012 (continued)**

Included in the total net book value of cables and submersibles of the Group is £82,490,421 (2011: £91,122,817) in respect of assets held under finance leases and hire purchase contracts. Depreciation for the Group the year on these assets was £7,295,903 (2011: £6,460,689).

The historical cost of cables and submersibles is

	<u>Group 2012</u>	<u>Group 2011</u>
	£'000	£'000
Cost	<b>214,562</b>	244,865
Accumulated depreciation based on historical cost	<b>(168,911)</b>	(182,795)
Historical cost net book value	<b><u>45,651</u></b>	<u>62,070</u>

Cable-ships and submersibles with total cost of £46,327,753 (2011: £nil) and net book value of £46,327,753 (2011: £nil) are held for use in operating leases.

M3 Marine Pte Limited, an external professional broker provided a market valuation dated both 31 December 2012 for 4 cable-ships and at 4 February 2013 for 2 cable-ships which have been revalued in the balance sheet at 31 December 2012.

Derrick Offshore Limited, also an external professional broker has provided a market valuation dated 22 July 2013 for one cable-ship which has been re-valued in the balance sheet at 31 December 2012.

The directors are not aware of any material change that would affect these valuations and consider them to be reflective of the year end position.

The company has no tangible fixed assets.

**14 Investments**

Group	Joint Ventures*	Associates*	Sub Total	Other investment	Total
	£'000	£'000	£'000	£'000	£'000
At 1 January 2012 (as restated)	39,394	37,404	<b>76,798</b>	72	<b>76,870</b>
Exchange rate revaluation	661	(2,841)	<b>(2,180)</b>	—	<b>(2,180)</b>
Additions	—	—	—	506	<b>506</b>
Dividends received	(23,568)	(119)	<b>(23,687)</b>	—	<b>(23,687)</b>
Share of retained profit for the year	685	3,223	<b>3,908</b>	—	<b>3,908</b>
Disposal (note 28)	—	(6,987)	<b>(6,987)</b>	—	<b>(6,987)</b>
Impairment provision	—	—	—	(518)	<b>(518)</b>
<b>At 31 December 2012</b>	<b><u>17,172</u></b>	<b><u>30,680</u></b>	<b><u>47,852</u></b>	<b><u>60</u></b>	<b><u>47,912</u></b>

\* Share of net assets

The directors believe that the carrying value of each investment is supported by its underlying net assets.

**Bridgehouse Marine Limited Notes to the financial statements for the year ended 31 December 2012 (continued)**

During 2012 the Group invested \$Nil (2011 - \$750,000) and \$800,000 (2011 - \$200,000) into Global Marine Energy Inc. by way of preference share capital and equity loans respectively. This has been written down to Net Asset Value of \$96,505 as at 31 December 2012 (31 December 2011 \$116,883). This investment has been dissolved in 2013 due to the sale of Global Marine Systems Energy Limited.

The aggregate amount of capital and reserves for each joint venture and associate company at its last year end, together with the profit or loss for its financial year are disclosed below:

	<u>Currency</u>	<u>Capital and Reserves</u>	<u>Profit / (loss) for the year ended</u>	<u>Accounting reference date</u>
	000's			
<b>Joint Ventures</b>				
Sembawang Cable Depot Pte Limited	SGD	1,214	1,257	31 March 2013
International Cables Pte Limited	SGD	27,788	(3,069)	31 March 2013
Visser Smit – Global Marine VOF	EUR	767	—	31 December 2012
<b>Associates</b>				
Sino British Submarine Systems Co Ltd – Consolidated results	Rem Yuan	500,992	41,137	31 December 2012
Huawei Submarine Systems Co Ltd – Consolidated results	HKD	155,761	2,001	31 December 2012

The Group's share of contingent liabilities and capital commitments of the joint ventures and associate companies was £nil (2011: £nil).

The following information is given in respect of the Group's share of all joint ventures and associates.

	<u>Joint ventures</u>		<u>Associates</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
	£'000	£'000	£'000	£'000
Fixed assets	7	9	26,733	33,588
Current assets	17,431	40,009	32,509	22,206
Liabilities due within one year	(266)	(624)	(28,562)	(18,390)

In 2012, as in 2011 the Group's share of operating profits for each joint venture and associate did not exceed 25% of the Group operating profits.

**Company**

**Shares**  
Subsidiary Undertakings  
£'000

**Cost**

At 1 January 2012 and 31 December 2012 1,271

In the opinion of the directors the investments in, and amounts due from, the Company's subsidiary undertakings, associates and joint ventures are of a value of at least the amounts at which they are stated in the balance sheet.

**Bridgehouse Marine Limited Notes to the financial statements for the year ended 31 December 2012(continued)**

<b>Subsidiary Undertaking</b>	<b>% holding and class</b>	<b>Country of registration or incorporation</b>	<b>Nature of business</b>
Global Marine Systems Limited	100% Ordinary	England and Wales	Submarine Telecommunications
Global Marine Systems (Americas) Inc**	100% Ordinary	USA	Holding company
Global Marine Cable Systems Pte Limited**	100% Ordinary	Singapore	Submarine telecommunications
Vibro-Einspultechnik Duker and Wasserbau GmbH**	100% Ordinary	Germany	Submarine telecommunications
Global Marine Systems (Depots) Limited**	100% Ordinary	Canada	Cable storage
GMSG Limited**	100% Ordinary	Guernsey	Fleet manning
Global Marine Systems Pension Trustee Limited**	100% Ordinary	England and Wales	Pension
Global Marine Systems (Bermuda) Limited**	100% Ordinary	Bermuda	Dormant
Global Marine Systems (Investments) Limited**	100% Ordinary	England and Wales	Holding company
Global Marine Systems (Japan) Limited**	100% Ordinary	Japan	Submarine telecommunications
Global Marine Systems DIS Limited**	100% Ordinary	England and Wales	Special construction
Redsky Subsea Limited**	100% Ordinary	England and Wales	investment
Global Marine Systems (Vessels) Limited**	100% Ordinary	England and Wales	Barecon charter agreements
Global Marine Search Limited**	100% Ordinary	England and Wales	Conduct searches for subsea sunken wrecks
Global Marine Salvage Limited**	100% Ordinary	Isle of Man	Barecon charter agreements
Global Marine Systems (Netherlands) BV**	100% Ordinary	The Netherlands	Dormant
Global Cable Technology Limited**	65% Ordinary	England and Wales	Manufacture of Jointing kits
Harmstorf Submarine Systems (Malaysia) Sdn Bhd**/***	30% Ordinary	Malaysia	Submarine telecommunications
Global Marine Systems Oil and Gas Limited	100% Ordinary	England and Wales	Dormant

\*\* Undertaking held indirectly by the company.

\*\*\* Included as subsidiary as Bridgehouse Marine Limited has the ability to control the entity.

All subsidiary companies are included in the consolidated Group numbers.

	<b>% holder and class</b>	<b>Country of Registration or incorporation</b>	<b>Nature of Business</b>	<b>Accounting period end</b>
<b>Joint Ventures</b>				
Sembawang Cable Depot Pte Limited**	40% ordinary	Singapore	Cable storage	31 March
International Cableship Pte Limited**	30% ordinary	Singapore	Ship operator	31 March
Visser Smit – Global Marine VOF**	50% partnership share	Netherlands	Wind farm installation	31 December
<b>Associates</b>				
Sino British Submarine Systems Co Ltd**	49% ordinary	China	Submarine telecommunications	31 December
Shanghai Jian Long**	39.2% ordinary (effective)****	China	Submarine telecommunications	31 December
Huawei Submarine Systems Co Ltd**	49% ordinary	Hong Kong	Investment	31 December
Huawei Marine Networks Ltd**	49% ordinary (effective) ***	China	Submarine telecommunications	31 December

\*\* Undertaking held indirectly by the principal trading subsidiary.

\*\*\* Huawei Marine Networks Ltd is 100% owned by Huawei Submarine Systems Co Ltd; therefore the company effectively owns 49% of Huawei Marine Networks Ltd.

\*\*\*\* Shanghai Jian Long is 80% owned by Sino British Submarine Systems Co Ltd; therefore the company effectively owns 39.2% of Shanghai Jian Long.

15 Stocks

	Group	
	2012	2011
	£'000	£'000
Raw materials and consumables	4,209	5,060
Work in progress	47	1,312
	<b>4,256</b>	<b>6,372</b>

16 Debtors

	Group		Company	
	2012	2011	2012	2011
	£'000	£'000	£'000	£'000
<b>Amounts due within one year:</b>				
Trade debtors	27,098	16,803	—	—
VAT	547	2,139	—	—
Other debtors	10,280	11,777	—	—
Prepayments and accrued income	5,306	13,398	—	—
	<b>43,231</b>	<b>44,117</b>	<b>—</b>	<b>—</b>
<b>Amounts due after more than one year:</b>				
Other debtors	4,614	—	—	—

The amounts owed by Group undertakings are unsecured, non-interest bearing and repayable on demand.

17 Creditors: amounts due within one year

	Group		Company	
	2012	2011	2012	2011
	£'000	£'000	£'000	£'000
Trade creditors	2,435	17,794	—	—
Amounts owed to Group undertakings	—	—	69	58
Obligations under finance leases and hire purchase contracts (note 18)	4,079	6,015	—	—
UK Corporation tax	53	82	—	—
Other taxation and social security	579	627	—	—
VAT	1	667	—	—
Other creditors	3,652	872	—	—
Accruals and deferred income	11,202	10,862	—	—
Deferred income	9,080	13,578	—	—
	<b>31,081</b>	<b>50,497</b>	<b>69</b>	<b>58</b>

18 Creditors: amounts falling due after more than one year

	Group	
	2012	2011
	£'000	£'000
Obligations under finance leases and hire purchase contracts	58,256	75,599
Accruals and deferred income	3,917	3,995
	<b>62,173</b>	<b>79,594</b>

The maturity of obligations under finance leases are as follows:

	Group	
	2012	2011
	£'000	£'000
Within one year	4,079	6,015
In second to fifth year	27,291	39,080
Over five years	30,965	36,519
	<b>62,335</b>	<b>81,614</b>

The finance leases are secured on the assets to which they relate and bear interest at a rate of 11% (2011: 11%).

In March 2012, the company renegotiated its finance lease with its joint venture International Cablesip Pte Limited ("ICPL"). The renegotiated lease also specifically replaces previously separately contracted income under the annual marketing agreement from ICPL. This renegotiation in 2012 provides evidence that as at 31 December 2011 the finance lease payments and the income under the marketing agreement were linked and may be treated as a net amount going forward. Accordingly this lower net annual payment has resulted in a reduction in the lease creditor of £15,034,000 as at 1 January 2011 and this amount was credited to the historic cost of the underlying fixed asset via the revaluation reserve in 2011.

19 Provision for liabilities

Group	SPA sale price provision	Insurance Provisions	Contract losses	Deferred tax	Total
	£'000	£'000	£'000	£'000	£'000
At 1 January 2012	—	—	4,542	719	5,261
Exchange adjustment	—	—	—	13	13
Charged to the profit and loss account	12,000	905	(4,542)	(80)	8,283
Set against escrow debtor	(2,520)	—	—	—	(2,520)
At 31 December 2012	9,480	905	—	652	11,037

Insurance provisions

Insurance provisions relate to potential costs for current insurance claims.

## Bridgehouse Marine Limited Notes to the financial statements for the year ended 31 December 2012(continued)

### Contract Losses

Contract losses at 1 January 2012 related to exceptional 2011 loss provisions and have been fully utilised in the current year.

### SPA sale price provision

In November 2012 the group's principal trading subsidiary, Global Marine Systems Limited, disposed of its subsidiary Global Marine Systems Energy Limited ("GME").

As prescribed under the terms of the Sale and Purchase Agreement ("SPA") the purchaser reviewed the 'closing accounts' in December 2012 which resulted in the purchaser submitting a claim under the SPA for a reduction in the overall purchase price.

Global Marine Systems Limited has not been able to reach agreement with the purchaser and the dispute has been referred to an independent expert for determination in accordance with the provisions contained in the SPA, the results of which are binding on both parties.

At the date of the approval of the financial statements the outcome of the dispute has yet to be determined. Therefore, based on what they consider to be a reliable estimate of the likely outcome of the final determination, the Directors have made a provision of £12m against the sale price.

Of the total £12m adjustment £2.52m has been set against the Escrow amount in the SPA relating to the final price adjustment and the balance of £9.48m has been taken to provisions in the financial statements.

The total amount of purchase price reduction being claimed by the purchaser is £22.7m.

### Deferred tax

As disclosed in note 10, since January 2001, the Group has reported under the UK Tonnage Tax regime. This regime calculates tax payable on qualifying shipping activities in accordance with the net tonnage of qualifying ships, rather than the adjustment of commercial profits.

Deferred taxation provided in the financial statements and the potential liability, including amounts for which provision has been made, is as follows:

Group	Amounts provided		Amounts unprovided	
	2012	2011	2012	2011
	£'000	£'000	£'000	£'000
Revalued assets	272	268	5,447	6,611
Advanced capital allowances	429	511	—	—
FRS 17 pension liability	—	—	(5,888)	(5,495)
Tax losses available	(49)	(60)	(34,183)	(37,155)
Total liability / (asset)	652	719	(34,624)	(36,039)

The majority of the Group's assets are tonnage tax assets, which do not qualify for capital allowances in the periods in which the Group is within the tonnage tax regime. Deferred tax liabilities in respect of these assets have not been provided on the basis that the Group intends to remain in the tonnage tax regime for the full 10 years and has no current plans to make further disposals of tonnage tax assets.

**Bridgehouse Marine Limited Notes to the financial statements for the year ended 31 December 2012 (continued)**

An unrecognised deferred tax asset arises in relation to tax losses on the non-tonnage tax business. These deferred tax assets have not been recognised on the basis that there is insufficient evidence of taxable profits arising in the future. The deferred tax asset will be recognised if sufficient profits are generated in the future to enable the asset to become recoverable.

**20 Called up share capital**

	<u>2012</u> £'000	<u>2011</u> £'000
<b>Authorised</b>		
2,000,000 ordinary shares of £1 each	<u>2,000</u>	<u>2,000</u>
<b>Allotted, called up and fully paid</b>		
1,266,000 ordinary shares of £1 each	<u>1,266</u>	<u>1,266</u>

**21 Reserves**

Group	Currency translation reserve £'000	Revaluation reserve £'000	Profit and loss account £'000
At 1 January 2012 as previously restated	6,971	42,036	44,337
Prior year adjustment	—	—	11,524
At 1 January 2012 as restated	<u>6,971</u>	<u>42,036</u>	<u>55,861</u>
Loss for the financial year	—	—	(1,883)
Depreciation on revalued assets	—	(2,917)	2,917
Impairment on revalued assets	(6,971)	(6,227)	—
Currency translation reserve classification	—	7,414	(443)
Actuarial profits on pension schemes	—	—	(5,718)
Net translation differences on foreign currency (note 25)	—	(569)	(421)
<b>At 31 December 2012</b>	<u>—</u>	<u>39,737</u>	<u>50,313</u>
<b>Company</b>			Profit and loss account £'000
At 1 January 2012			<b>(53)</b>
Loss for the financial year			<b>(11)</b>
<b>At 31 December 2012</b>			<u><b>(64)</b></u>



**Bridgehouse Marine Limited Notes to the financial statements for the year ended 31 December 2012(continued)**

**22 Reconciliation of movement in shareholder's funds**

Group	2012	2011
	£'000	as restated £'000
Opening shareholders' funds as previously stated	94,610	103,481
Prior year adjustment	11,524	12,311
Opening shareholders' funds as restated	<u>106,134</u>	<u>115,792</u>
Loss for the financial year	(1,883)	(11,209)
Impairment of revalued assets	(6,227)	15,034
Currency translation differences on foreign currency net investments	(990)	1,461
Actuarial (losses)/gains on pension schemes	(5,718)	(14,944)
Closing shareholders' funds	<u><u>91,316</u></u>	<u><u>106,134</u></u>

Of the results for the financial year, a loss of £11,000 (2011: £53,000), is dealt with in the accounts of Bridgehouse Marine Limited ('company'). The directors have taken advantage of the exemption available under section 406 of the Companies Act 2006 and not presented a profit and loss account for the company alone.

**23 Financial commitments**

**a) Financial commitments at the end of the year for which no provision has been made:**

Group	2012	2011
	000's	000's
Fixed Asset Purchase Commitments	<b>GBP 4,883</b>	GBP 8,213
Forward Rate Exchange Agreements	—	EUR 1,000

In the prior year the Group and the company had in place one Euro denominated forward exchange rate contract (2012 – none).

**b) Annual commitments under non-cancellable operating leases are as follows:**

Group	2012		2011	
	Land and buildings	Other	Land and buildings	Other
	£'000	£'000	£'000	£'000
Operating leases which expire				
Within one year	10	—	189	2,688
Between two and five years	358	—	333	887
After five years	1,025	—	835	503
	<u><u>1,393</u></u>	<u><u>—</u></u>	<u><u>1,357</u></u>	<u><u>4,078</u></u>

## **24 Pension commitments**

The Group has established a number of pension schemes and contribute to other pension schemes around the world covering many of its employees. The principal funds are those in the UK comprising The Global Marine Systems Pension Plan, The Global Marine Personal Pension Plan (established in 2008), and Global Marine Systems (Guernsey) Pension Plan. A number of employees are members of the Merchant Navy Officers Pension Fund, a centralised defined benefit scheme to which the Group contributes.

The Global Marine Systems Pension Plan, the Global Marine Systems (Guernsey) Pension Plan and the Merchant Navy Officers Pension Fund are funded schemes of the defined benefit type with assets held in separate trustee administered funds. However as the Global Marine Systems (Guernsey) Pension Plan, which operates both a Career Average Re-valued Earnings ("CARE") defined benefit section and a defined contribution section is small with few members, the scheme is accounted for as defined contribution type scheme. The Global Marine Personal Pension Plan is predominantly of the money purchase type.

The Global Marine Systems Pension Plan was a hybrid, exempt approved, occupational pension scheme for the majority of staff, which provides pension and death in service benefits. The defined benefit section of the Plan provided final salary benefits up to 31 December 2003 and CARE benefits from 1 January 2004. In 2008 the defined contribution section was closed to new contributions and all the accumulated funds attributable to the defined contribution members were transferred to a Contracted in Money Purchase Scheme ("CIMP") set up by the Group. These funds were held on behalf of the defined contribution members and were all transferred to the Global Marine Personal Pension plan of each member on or before 30 June 2009. From 31 August 2006 the defined benefit section of the Scheme closed to future accrual and active members were offered membership of the existing defined contribution section (with some enhanced benefits).

### **Pension scheme valuations and contributions payable**

#### Global Marine Systems Pension Plan – Defined Benefit Section

The defined benefit section of the Global Marine Systems Plan (prior to its closure on 31 August 2006) was contributory, with employees contributing between 5% and 8% (depending on their age) and the employer contributing at a rate of 9.2% of pensionable salary plus deficit contributions of £950,000 per annum.

The defined benefit section of the Global Marine Systems Pension Plan is funded by the payment of contributions determined with the advice of qualified independent actuaries on the basis of triennial valuations using the projected unit method.

The most recent full actuarial valuation was conducted as at 31 December 2011. The main assumptions used were that Retail Price inflation would be 3.3% per annum, Consumer Price Inflation would be 2.55% per annum, the rate of return on investments (pre-retirement) would be 4.8% per annum, the rate of return on investments (post-retirement) would be 3.8% per annum, with pensions increasing by 3.0% per annum.

At the actuarial valuation date the market value of the defined benefit section's assets amounted to £76,520,000. On a statutory funding objective basis the value of these assets covered the value of technical provisions by 58%.

Following the 2011 actuarial valuation, contributions are payable by the Group as follows:

- Payments made of between £171,250 and £177,510 each month from 31 March 2012 to 28 February 2013;
  - a lump sum payment of £2,500,000 paid on 31 March 2013;
  - £312,500 payable every month during calendar year 2014;
  - £333,334 payable every month during calendar years 2015 to 2018 inclusive;
-

## **Bridgehouse Marine Limited Notes to the financial statements for the year ended 31 December 2012 (continued)**

- £375,000 payable every month during calendar years 2019 to 2022 inclusive;
- followed by £1,866,667 payable in each of the first three months of calendar year 2023;
- additional variable contributions based on the profit declared each year by the company, less any enhancements to transfer values that the company pays, with the first payment starting in 2014 based on the profit earned in 2012.

### Global Marine Personal Pension Plan

This is a defined contribution pension scheme and is contributory from the employee; the rate of contributions is split as follows:

- ex CARE employees contributing between 2.5% and 7.5% and the employer contributing at a matching rate plus an additional 5% fixed contributions,
- defined contribution employees contributing between 2% and 7.5% and the employer contributing at a matching rate.

### Merchant Navy Officers Pension Fund

The Merchant Navy Officers Pension Fund is funded by the payment of contributions determined with the advice of qualified independent actuaries on the basis of triennial valuations using the projected unit method.

The most recent available full actuarial valuation was conducted as at 31 March 2012. The main assumptions used were that Retail Price Inflation would be 3.2% per annum, Consumer Price Inflation would be 2.2% per annum, the rate of return on investments (pre-retirement) would be 5.7% per annum, the rate of return on investments (post-retirement) would be 4.0% per annum and the rate of salary increases 4.2% per annum with pensions increasing by 3.0% per annum.

At the actuarial valuation date the market value of the total assets in the scheme amounted to £2,169m of which 0.05594% (£1,213k) relates to the Global Marine Systems Group. On an ongoing basis the value of these assets, together with the deficit contributions receivable from the 2003 / 2006 / 2009 of £340m, covered the value of pensioner' liabilities, preserved pension liabilities for former employees and the value of benefits for active members based on accrued service and projected salaries, to the extent of 94%,

Following the 2012 actuarial valuation, contributions are payable by the Group as follows:

- payment of £603,000 by 30 June 2013 in respect of 2003 / 2006 / 2009 deficit;
- payment of £72,000 by 30 June 2013 in respect of 2012 deficit;
- Increase Employer contributions to 20% of pensionable salaries from 1 October 2013.

### Global Marine Systems (Guernsey) Pension Plan

The defined benefit section of the Guernsey Scheme is contributory, with employees contributing between 5% and 8% (depending on their age), the employer ceased contributing after July 2004. The defined contribution section is also contributory, with employees contributing between 2% and 7.5% (depending on their age and individual choice) and the employer contributing at a matching rate.

The defined benefit section of the Guernsey Scheme is funded by the payment of contributions determined with the advice of qualified independent actuaries on the basis of triennial valuations using the projected unit method.

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## Bridgehouse Marine Limited Notes to the financial statements for the year ended 31 December 2012 (continued)

An actuarial valuation was conducted as at 31 December 2010. The principal actuarial assumptions used by the actuary were investment returns of 5.7% per annum pre-retirement, 4.8% per annum post-retirement, inflation of 3.7% per annum and pension increases of 3.4% per annum.

At the valuation date the market value of the assets amounted to £1,267,000. The results show a past service shortfall of £390,000 corresponding to a funding ratio of 76%.

Following the actuarial valuation as at 31 December 2010, contributions are as follows:

- 19.5% of Pensionable Salaries from 1 January 2012 for future final salary benefits and management expenses.
- Lump sum contributions of £45,000 paid 31 December 2012 and payable 31 December 2013, then seven annual contributions of £66,000 on each 31 December 2014 to 2020.

### FRS17 Disclosures

#### Global Marine Systems Pension Plan – Defined Benefit Section

The valuation used for FRS 17 disclosures has been based on a full assessment of the liabilities of the Plan as at 31 December 2011. The present values of the defined benefit obligation and any past service costs were measured using the projected unit credit method. Since the deferred benefit section is closed to future accrual the current service cost is nil.

The Plan is a funded Plan with a defined benefit section and a defined contribution section (“DC”) section although all DC members’ funds, except for certain AVC funds, have been transferred to a Group Personal Pension Plan. These disclosures relate to the defined benefit section only which is closed to new entrants and future accruals (but members retained their entitlement to death-in-service and ill-health benefits).

Actuarial gains and losses have been recognised in the period in which they occur (but outside the profit and loss account), through the Statement of Recognised Gains and Losses (“STRGL”).

The principal assumptions used by the independent qualified actuaries to calculate the liabilities and assets under FRS 17 are set out below:

	2012	2011
Rate of increase in salaries*	<b>Not applicable</b>	Not applicable
Rate of increase in deferred pensions**	<b>2.85%</b>	2.90%
Rate of increase in pensions in payment**	<b>2.85%</b>	2.90%
Discount rate	<b>4.60%</b>	4.90%
Inflation assumption – RPI	<b>2.95%</b>	3.00%
Inflation assumption – CPI	<b>2.25%</b>	2.00%
Expected return on scheme assets***	<b>6.62%</b>	6.72%
Mortality assumption****	<b>See below</b>	See below

\* It is not necessary to make an assumption about salary increases as the Plan changed to a CARE arrangement with effect from 1 January 2004.

\*\* The pension increase assumption is that for benefits increasing with RPI are limited to 5% per annum, to which the majority of the Plan's liabilities relate.

\*\*\* The Group employs a building block approach in determining the long-term rate of return of pension plan assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The overall expected rate of return on assets is derived by aggregating the expected return for each asset class over the actual asset allocation for the Plan at 31 December 2012.

\*\*\*\* The mortality assumptions are based on standard mortality tables which allow for expected future mortality improvements. The assumptions are that a member currently aged 60 will live on average for a further 23.8 years if they are male, and for a further 27.6 years if they are female. For a member who retires in 2032 at age 60 the assumptions are that they will live on average for a further 26.0 years after retirement if they are male and for a further 29.5 years after retirement if they are female.

**Bridgehouse Marine Limited Notes to the financial statements for the year ended 31 December 2012 (continued)**

The assets and liabilities of the Plan were:

	2012	2011
	£'000	£'000
Equities	51,762	46,204
Index Linked Government Bonds	12,291	12,352
Fixed Interest Government Bonds	—	—
Corporate Bonds	19,183	17,602
Other	88	314
Total market value of assets	83,324	76,472
Present value of liabilities	(108,738)	(97,574)
Net pension liability	(25,414)	(21,102)

As a result of the Group operating the tonnage tax regime corporation tax is not related to the movement in profit or losses. Consequently, no deferred tax asset arises on the pension scheme liabilities.

Charges to the profit and loss account on the basis of the assumptions stated above are:

	2012	2011
	£'000	£'000
<b>Profit and loss account</b>		
Operating profit		
Current service cost	—	—
Past service cost	—	—
Total (credit) to operating profit	—	—
Finance cost		
Interest cost	4,705	4,682
Expected return on pension scheme assets	(5,081)	(5,460)
Total (credit) / charge to other finance costs	(376)	(778)
Total (credit) to profit before taxation	(376)	(778)

Changes to the present value of the defined benefit obligation during the year

	2012	2011
	£'000	£'000
Defined benefit obligation at 1 January	(97,574)	(84,917)
Interest cost	(4,705)	(4,682)
Net benefits paid out	3,128	2,647
Actuarial loss on plan liabilities	(9,587)	(10,622)
Defined benefit obligation at 31 December	(108,738)	(97,574)

**Bridgehouse Marine Limited Notes to the financial statements for the year ended 31 December 2012 (continued)**

**Changes to the fair value of plan assets during the year**

	<u>2012</u>	<u>2011</u>
	£'000	£'000
Fair value of plan assets at 1 January	76,472	76,365
Expected return on plan assets	5,081	5,460
Contributions by the employer	1,738	1,304
Net benefits paid out	(3,128)	(2,647)
Actuarial gain / (loss) on plan assets	3,161	(4,010)
Fair value of plan assets at 31 December	<u>83,324</u>	<u>76,472</u>

**Actual return on plan assets**

	<u>2012</u>	<u>2011</u>
	£'000	£'000
Expected return on plan assets	5,081	5,460
Actuarial gain / (loss) on plan assets	3,161	(4,010)
Actual return on plan assets	<u>8,242</u>	<u>1,450</u>

**Five year history of asset values, DBO and surplus/deficit in plan**

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
	£'000	£'000	£'000	£'000	£'000
Defined benefit obligation	(108,738)	(97,574)	(84,917)	(86,151)	73,530
Plan assets	83,324	76,472	76,365	70,873	63,840
Deficit	<u>(25,414)</u>	<u>(21,102)</u>	<u>(8,552)</u>	<u>(15,278)</u>	<u>(9,690)</u>
<b>Experience gains/(losses):</b>					
On Plan liabilities*	(3,454)	(810)	3,182	(3,139)	(220)
On Plan assets	3,161	(4,010)	3,738	4,297	(12,754)
Actuarial gain / (loss) recognised in STRGL	<u>(6,426)</u>	<u>(14,632)</u>	<u>2,172</u>	<u>(7,107)</u>	<u>1,140</u>
Cumulative amount of losses recognised in STRGL	<u>(29,393)</u>	<u>(22,967)</u>			

\* This item consists of gains / (losses) in respect of liability experience, excluding any changes in liabilities in respect of changes in the actuarial assumptions used.

**Merchant Navy Officers Pension Fund**

The valuation used for FRS 17 disclosures has been based on a full assessment of the liabilities of the Fund as at 31 March 2012. The present values of the defined benefit obligation and any past service costs were measured using the projected unit credit method.

The Plan is a funded arrangement of the defined benefit type, providing retirement benefits based on career average salary.

Actuarial gains and losses have been recognised in the period in which they occur, (but outside the profit and loss account), through the Statement of Recognised Gains and Losses ("STRGL").

**Bridgehouse Marine Limited Notes to the financial statements for the year ended 31 December 2012 (continued)**

The principal assumptions used by the independent qualified actuaries to calculate the liabilities and assets under FRS 17 are set out below.

	2012	2011
Rate of increase in salaries	4.45%	4.50%
Rate of increase in deferred pensions *	2.85%	2.90%
Rate of increase in pensions in payment *	2.85%	2.90%
Discount rate	4.60%	4.90%
Inflation assumption – RPI	2.95%	3.00%
Inflation assumption – CPI	2.25%	n/a
Expected return on scheme assets **	5.74%	6.47%
Mortality assumption **	See below	See below

\* The pension increase assumption is that for benefits increasing with RPI are limited to 5% per annum, to which the majority of the Plan's liabilities relate.

\*\* The Group employs a building block approach in determining the long-term rate of return on pension fund assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The overall expected rate of return on assets is derived by aggregating the expected return for each asset class over the actual asset allocation for the Plan at 31 December 2012.

\*\*\* The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are that a member currently aged 60 will live on average for a further 25.6 years if they are male, and for a further 29.6 years if they are female. For a member who retires in 2032 at age 60 the assumptions are that they will live on average for a further 27.2 years after retirement if they are male and for a further 31.4 years after retirement if they are female.

**The assets and liabilities of the fund were:**

	2012	2011
	£'000	£'000
Equities	599	1,242
Fixed Interest Government Bonds	419	548
Corporate Bonds	209	177
Property	35	114
Other	28	102
<b>Total market value of assets</b>	<b>1,290</b>	<b>2,183</b>
Present value of liabilities	(1,478)	(3,060)
<b>Net pension liability</b>	<b>(188)</b>	<b>(877)</b>

As a result of the company operating the Tonnage Tax regime corporation tax is not related to the movement in profit or losses. Consequently, no deferred tax asset arises on the pension scheme liabilities.

**Bridgehouse Marine Limited Notes to the financial statements for the year ended 31 December 2012 (continued)**

**Charges to the profit and loss account on the basis of the assumptions stated above are:**

	<u>2012</u>	<u>2011</u>
	£'000	£'000
<b>Profit and loss account</b>		
Operating profit		
Current service cost	<u>59</u>	<u>53</u>
<b>Total charge to operating profit</b>	<b>59</b>	<b>53</b>
<b>Finance costs</b>		
Interest cost	<b>148</b>	142
Expected return on pension scheme assets	<u>(141)</u>	<u>(115)</u>
<b>Total charge to other finance costs</b>	<b>7</b>	<b>27</b>
<b>Total charge to profit before taxation</b>	<b><u>66</u></b>	<b><u>80</u></b>

**Changes to the present value of the defined benefit obligation during the year**

	<u>2012</u>	<u>2011</u>
	£'000	£'000
Defined benefit obligation at 1 January	<b>(3,060)</b>	(2,606)
Current service cost	<b>(59)</b>	(53)
Interest cost	<b>(148)</b>	(142)
Contributions by plan participants	<b>(29)</b>	(32)
Net benefits paid out	<b>64</b>	126
Actuarial loss on fund liabilities	<u><b>1,754</b></u>	<u>(353)</u>
<b>Defined benefit obligation at 31 December</b>	<b><u>(1,478)</u></b>	<b><u>(3,060)</u></b>

**Changes to the fair value of plan assets during the year 2012**

	<u>2012</u>	<u>2011</u>
	£'000	£'000
Fair value of fund assets at 1 January	<b>2,183</b>	2,070
Expected return on plan assets	<b>141</b>	115
Contributions by the employer	<b>47</b>	51
Contributions by plan participants	<b>29</b>	32
Net benefits paid out	<b>(64)</b>	(126)
Actuarial (loss) gain on fund assets	<u><b>(1,046)</b></u>	<u>41</u>
<b>Fair value of fund assets at 31 December</b>	<b><u>1,290</u></b>	<b><u>2,183</u></b>



**Bridgehouse Marine Limited Notes to the financial statements for the year ended 31 December 2012 (continued)**

**Actual return on fund assets**

	<u>2012</u>	<u>2011</u>
	<u>£'000</u>	<u>£'000</u>
Expected return on fund assets	<b>141</b>	115
Actuarial (loss) gain on fund assets	<b>(1,046)</b>	41
Actual (loss) gain on fund assets	<b><u>(905)</u></b>	<b><u>156</u></b>

**Five year history of asset values, DBO and surplus/deficit in fund**

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
Defined benefit obligation	<b>(1,478)</b>	(3,060)	(2,606)	(1,808)	(1,580)
Plan assets	<b>1,290</b>	2,183	2,070	1,194	1,150
Deficit	<b>(188)</b>	(877)	(536)	(614)	(430)
<b>History of experience gains and losses:</b>					
On Plan liabilities*	<b>1,830</b>	(353)	(602)	(130)	—
On Plan assets	<b>(1,046)</b>	41	860	141	(290)
Actuarial gain/(loss) recognised in STRGL	<b>708</b>	(312)	118	(150)	(60)
Cumulative amount of gains recognised in STRGL	<b>3,164</b>	2,456			

\* This item consists of gains/losses in respect of liability experience, excluding any changes in liabilities in respect of changes to the actuarial assumptions used.

**Defined Contribution Pension Scheme costs**

Group contributions to the defined contribution type pension schemes including overseas pension arrangements are:

	<u>2012</u>	<u>2011</u>
	<u>£'000</u>	<u>£'000</u>
Global Marine Personal Pension Plan	<b>989</b>	1,077
Global Marine Systems (Guernsey) Pension Plan	<b>20</b>	16
Total contributions	<b><u>1,009</u></b>	<b><u>1,093</u></b>

At 31 December 2012 contributions of £43,000 were due to be payable to the pension schemes (2011: £65,000)

25 Reconciliation of exchange differences recognised through the statement of total recognised gains and losses

	Note	2012 £'000	2011 £'000
Exchange adjustment on Fixed Assets	13	(1,484)	(133)
Exchange adjustment on interest in Joint Ventures & Associates	14	(2,180)	1,676
Exchange adjustment on Finance Leases and other related creditors in foreign currency funding Fixed Assets held in the same foreign currency		—	145
Exchange adjustment on overseas subsidiaries		2,674	(227)
Currency translation	22	(990)	1,461

26 Related party transactions

The Group has taken advantage of the exemption contained within Financial Reporting Standard 8 'Related Party Transactions' not to disclose transactions with other members of the Bridgehouse Marine Limited Group on the grounds that the company is wholly owned subsidiary undertaking of Bridgehouse Marine Limited a company with consolidated financial statements that are publicly available.

- a) Detail of transactions with the Group during the year and balances outstanding at the year end are given in respect of the associated undertaking and joint ventures (as disclosed in note 14 above). Details of the renegotiation of the lease agreements with International Cables Pte Limited in 2012 are provided in note 18.

Year Ended 31 December 2012	NTT World Engineering Marine Inc £'000	International Cables Pte Limited £'000	Sino British Submarine Systems Co Ltd £'000	Sembawang Cable Depot Pte Limited £'000	Huawei Marine Networks Ltd £'000
<b>Profit and loss account</b>					
Turnover	83	—	1,017	—	6,839
Operating costs	—	—	—	—	(119)
Other Income	—	—	—	—	—
Finance lease interest	—	(3,402)	—	—	—
Dividends received	—	22,370	—	1,211	—
<b>Balance Sheet</b>					
<b>Debtors:</b> amounts falling due within one year Trade debtors					
	2	—	137	—	2,050
<b>Creditors:</b> amounts falling due within one year Obligations under finance leases					
	—	(1,326)	—	—	—
Trade creditors	—	—	(25)	—	—
<b>Creditors:</b> amounts falling due after more than one year Obligations under finance leases					
	—	(29,723)	—	—	—

**Bridgehouse Marine Limited Notes to the financial statements for the year ended 31 December 2012 (continued)**

Year Ended 31 December 2011	NTT World Engineering Marine Inc £'000	International Cables Pte Limited £'000	Sino British Submarine Systems Co £'000	Sembawang Cable Depot Pte Limited £'000	Huawei Marine Networks Ltd £'000
<b>Profit and loss account</b>					
Turnover	2,144	—	2,600	—	1,650
Operating costs	—	—	—	—	(882)
Other Income	—	—	—	—	—
Finance lease interest	—	(2,249)	—	—	—
Dividends received	—	3,032	—	—	—
<b>Balance Sheet</b>					
<b>Debtors:</b> amounts falling due within one year Trade debtors					
	—	2,401	155	—	2,339
<b>Creditors:</b> amounts falling due within one year Obligations under finance leases					
	—	(19,557)	—	—	—
Trade creditors	—	(2,401)	(21)	—	—
<b>Creditors:</b> amounts falling due after more than one year Obligations under finance leases					
	—	(25,919)	—	—	—

**b) Details of transactions during and balances outstanding at the end of the year are given in respect of the payments made to the companies that are related to group and company directors.**

The group provided a loan of USD 4,494,000 to Global Marine Drillships Limited bearing interest at 7.5% per annum until 30 April 2011. After this date the loan remained interest free, interest of £nil (2011: £73,000) has been credited to the profit and loss account. The 2011 outstanding sum of USD 1,500,000 from Global Marine Drillships Limited was repaid part in May 2012 USD 474,615 and the remaining balance of USD 1,025,385 in December 2012.

Global Marine Drillships Limited and Bridgehouse Marine Limited have a common ultimate shareholder.

During the year, the Group purchased services of £nil (2011: £30,000) from Trigger Software Limited, a company in which Mr Stephen Scott is also a director.

During the year, the Group purchased services of £21,000 (2011: £13,000) from Global Cable Recovery Limited, a company in which Mr Gabriel Ruhan is also a director.

During the year, the Group purchased services of £3,492,000 (2011: £1,208,000) from Subserve Pro Limited, a company connected to Mr Gabriel Ruhan and Mr Andrew Ruhan.

During the year the Group purchased services of £230,000 (2011: £201,000) from Orca Offshore Limited, a company connected to Mr Gabriel Ruhan and Mr Andrew Ruhan.

During the year the Group purchased services of £2,000,000 (2011: £nil) from Glen Moar Properties Limited, a company connected to Mr Simon McNally.

During the year the Group provided services of £309,000 (2011: £141,000) to Bridgehouse Capital, a company connected to Mr Stephen Scott, Mr Gabriel Ruhan and Mr Andrew Ruhan.

During the year, the Group provided services of £nil (2011: £55,000) to Subserve Pro Limited, a company connected to Mr Gabriel Ruhan and Mr Andrew Ruhan.

**Bridgehouse Marine Limited Notes to the financial statements for the year ended 31 December 2012(continued)**

During the year the Group provided services of £34,000 (2011: £13,000) to Sentrum India Limited, a company connected to Mr Stephen Scott, Mr Gabriel Ruhan and Mr Andrew Ruhan.

During the year the Group provided services of £176,000 (2011: £61,000) and purchased services of £2,199,000 (2011: £1,582,000) to Global Cable Technology Limited a 65% owned subsidiary.

**27 Post Balance Sheet Events**

On 31 July 2013 the company received a short term loan of £4.5m from its subsidiary Global Marine Systems Limited. This loan is repayable on demand and is non-interest bearing. On 6<sup>th</sup> August 2013 the Group made a short term loan of £1.25m to Mr A Ruhan a shareholder of the group holding company. Interest on this loan is charged at 1% per calendar month. On 22 August 2013, the Group made a short term secured loan of £13m to Grenda investments Limited. Interest on this loan is charged at 1% per calendar month.

**28 Discontinued operations**

On 15 November 2012 the group disposed of the subsidiary Global Marine Systems Energy Limited.

The profit on disposal of Global Marine Systems Energy Limited has been calculated as follows:

	£'000	£'000
Cash proceeds		42,500
Net assets disposed of:		
Tangible fixed assets	34,477	
Stocks	624	
Debtors	11,465	
Cash	537	
Creditors	(24,830)	
		(22,273)
Less:		
Costs on disposal		(4,253)
SPA sales price provision		(12,000)
Profit on disposal		<u>3,974</u>

The net inflow of cash in respect of the sale of Global Marine Systems Energy Limited is as follows:

	£'000
Cash proceeds (net of amounts held in escrow)	36,620
Costs on disposal	(4,253)
Net cash consideration	32,367
Cash transferred on disposal	(537)
Net inflow of cash	<u>31,830</u>

On 14 December 2012 the group disposed of its investment in the associate NTT World Engineering Marine Corporation.

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**Bridgehouse Marine Limited Notes to the financial statements for the year ended 31 December 2012 (continued)**

The profit on disposal of NTT World Engineering Marine Corporation has been calculated as follows:

	£'000	£'000
Cash proceeds		7,369
Investments disposed of:		
Share of gross assets	8,420	
Share of gross liabilities	<u>1,433</u>	
		(6,987)
Less costs on disposal		(128)
Profit on disposal		<u>254</u>

The net inflow of cash in respect of the sale of NTT World Engineering Marine Corporation is as follows:

	£'000
Cash proceeds	7,369
Costs on disposal	(128)
Net inflow of cash	7,241

**29 Ultimate controlling party**

At the Balance Sheet date the ultimate controlling party is Ballaugh Holdings Limited, registered in the British Virgin Islands.

**30 Reconciliation of cash flow to movement in net debt**

	<u>2012</u>	<u>2011</u>
	£'000	£'000
Increase / (decrease) in cash	18,909	(13,964)
Cash outflow from change in debt	<u>17,883</u>	<u>5,557</u>
Movement in net debt resulting from cash flows	36,792	(8,407)
Restatement of lease commitment	—	15,034
Exchange Translation	<u>1,396</u>	<u>573</u>
Movement in net debt	38,188	7,200
Opening net debt	<u>(70,756)</u>	<u>(77,956)</u>
Closing net debt	<u>(32,568)</u>	<u>(70,756)</u>

**31 Analysis of net debt**

	<u>At 1</u>	<u>Cash</u>	<u>Exchange</u>	<u>At 31 December</u>
	January	flow	adjustment	2012
	£'000	£'000	£'000	£'000
Cash at bank and in hand	10,858	17,963	946	29,767
Finance leases	<u>(81,614)</u>	17,883	1,396	<u>(62,335)</u>
Total	<u>(70,756)</u>	<u>35,846</u>	<u>2,342</u>	<u>(32,568)</u>

## Bridgehouse Marine Limited

## Unaudited group profit and loss account for the six month periods ended 30 June 2014 and 30 June 2013

	2014	2013
	£'000	£'000
<b>Turnover (including share of joint ventures and associates)</b>	<b>70,017</b>	<b>69,258</b>
Less: share of joint ventures' turnover	(319)	(560)
share of associates' turnover	(16,967)	(21,560)
<b>Group turnover</b>	<b>52,731</b>	<b>47,138</b>
Other operating (charges) / credits	(1,756)	883
Other operating costs (net)	(43,917)	(37,210)
<b>Operating costs</b>	<b>(45,673)</b>	<b>(36,327)</b>
<b>Group operating profit</b>	<b>7,058</b>	<b>10,811</b>
Share of joint ventures' operating profit	70	287
Share of associates' operating profit	1,503	1,159
Profit on sale of tangible fixed assets	—	84
Interest receivable and similar income		
– Group	1,082	37
– Joint ventures	232	271
– Associates	5	—
	1,319	308
Interest payable and similar charges		
– Group – Interest payable	(1,425)	(2,461)
– Exchange gain/(loss)	1,407	(1,551)
– Joint ventures	—	—
– Associates	(104)	(120)
	(122)	(4,132)
<b>Profit on ordinary activities before taxation</b>	<b>9,828</b>	<b>8,517</b>
Tax on profit (loss) on ordinary activities		
– Group	(132)	(1)
– Joint ventures	(2)	(25)
– Associates	(309)	(186)
<b>Profit on ordinary activities after taxation</b>	<b>9,385</b>	<b>8,305</b>
Minority interest	(881)	(755)
<b>Profit for the financial period</b>	<b>8,504</b>	<b>7,550</b>

**Bridgehouse Marine Limited**

Unaudited group balance sheet as at 30 June 2014 and 30 June 2013

Company Number 04352407

	Note	£'000	2014 £'000	£'000	2013 £'000
<b>Fixed assets</b>					
Intangibles					
Negative goodwill	2		(10,755)		(12,125)
Tangible assets	3		96,465		103,673
Investments in joint ventures					
Share of gross assets		15,159		17,492	
Share of gross liabilities		(357)		(274)	
	4	14,802		17,218	
Investment in associates	4	30,217		33,632	
Other investments	4	—		186	
Fixed asset investments	4		45,019		51,036
			130,729		142,584
<b>Current assets</b>					
Stocks		7,337		5,365	
Debtors: amounts falling due within one year	5	45,277		40,047	
Debtors: amounts falling due after more than one year	5	4,465		4,614	
Cash at bank and in hand	6	21,183		33,410	
		78,262		83,436	
Creditors: amounts falling due within one year	7	(40,100)		(45,158)	
<b>Net current assets</b>			38,162		38,278
<b>Total assets less current liabilities</b>			168,891		180,862
Creditors: amounts falling due after more than one year	8		(47,991)		(45,061)
Provisions for liabilities	9		(1,331)		(11,054)
<b>Net assets excluding pension liability</b>			119,569		124,747
Pension liability			(29,212)		(22,072)
<b>Net assets including pension liability</b>			90,357		102,675
<b>Capital and reserves</b>					
Called up share capital	10		1,266		1,266
Revaluation reserve	11		30,595		34,680
Profit and loss account	11		48,371		55,246
<b>Total shareholders' funds</b>	12		80,232		91,192
Minority interest			10,125		11,483
			90,357		102,675

**Bridgehouse Marine Limited**

**Unaudited group cash flow statement for the six month periods ended 30 June 2014 and 30 June 2013**

	Note	£'000	2014 £'000	£'000	2013 £'000
<b>Reconciliation of operating profit to net cash inflow from operating activities</b>					
Operating profit		7,058		10,811	
Depreciation on tangible fixed assets		5,379		5,435	
Amortisation on intangible assets		(680)		(690)	
Loss on disposal of tangible fixed assets		25		—	
Difference between pension charge and cash contributions		(1,881)		(3,530)	
Currency translation differences		1,456		(430)	
Increase in inventories		(1,472)		(1,109)	
Decrease in receivables		3,091		3,184	
Increase / (decrease) in creditors		7,316		(3,721)	
<b>Net cash inflow from operating activities</b>			<b>20,292</b>		<b>9,950</b>
<b>Dividends from joint ventures / associates</b>			<b>1,145</b>		<b>926</b>
<b>Returns on investment and servicing of finance</b>					
Interest received		1,841		37	
Interest paid		(1,425)		(2,461)	
Dividends paid to minority interests		(498)		—	
<b>Net cash outflow from returns on investment and service of finance</b>			<b>(82)</b>		<b>(2,424)</b>
<b>Taxation</b>					
UK taxes paid		(21)		(21)	
Overseas taxes paid		(113)		—	
<b>Net cash outflow from taxation</b>			<b>(134)</b>		<b>(21)</b>
<b>Capital expenditure and financial investment</b>					
Purchase of plant and equipment		(961)		(2,856)	
Proceeds on disposal of plant and equipment		—		101	
Short term loan advances repaid		14,500		—	
Short term loan advances		(15,000)		—	
<b>Net cash outflow from capital expenditure and financial investment</b>			<b>(1,461)</b>		<b>(2,755)</b>
<b>Acquisitions and disposals</b>					
Prior period sale of business operations		(17,942)		—	
<b>Net cash outflow from acquisitions and disposals</b>			<b>(17,942)</b>		<b>—</b>
<b>Finance</b>					
Repayment of finance lease capital		(18,179)		(2,033)	
Loan advanced		12,143		—	
Repayment of loan		(582)		—	
<b>Net cash outflow from financing</b>			<b>(6,618)</b>		<b>(2,033)</b>
<b>Management of liquid resources (Decrease) / increase in cash</b>	14		<b>(4,800)</b>		<b>3,643</b>



## Bridgehouse Marine Limited

### Notes to the interim condensed consolidated financial statements for the periods ended 30 June 2014 and 30 June 2013

#### 1 Accounting policies

##### Accounting periods

The accounting reference date of the Group is 31 December. The interim condensed consolidated financial statements are for the six months ended 30 June 2014 and the six months ended 30 June 2013. The interim condensed consolidated financial statements are unaudited.

##### Basis of preparation

The interim condensed consolidated financial statements have been prepared on a going concern basis using the recognition and measurement criteria of United Kingdom Generally Accepted Accounting Practice. The accounting policies used in the preparation of these interim condensed consolidated financial statements are the same as those set out in the statutory financial statements of the Group for the period ended 31 December 2013.

##### Going Concern

Having reviewed the Group's cash flow projections for the next 12 months after the date of these interim condensed consolidated financial statements, the directors are confident they will have adequate resources to meet the requirements of the business for the foreseeable future. The directors have therefore prepared these interim condensed consolidated financial statements on a going concern basis.

#### 2 Intangible fixed assets

	Negative goodwill £'000
<b>Cost</b>	
At 1 January 2014 and 30 June 2014	(57,120)
<b>Accumulated amortisation</b>	
At 1 January 2014	45,685
Provided in the period	680
At 30 June 2014	46,365
<b>Net Book Value</b>	
<b>At 30 June 2014</b>	<b>(10,755)</b>
At 31 December 2013	(11,435)
<b>Cost</b>	
At 1 January 2013 and 30 June 2013	(57,120)
<b>Accumulated amortisation</b>	
At 1 January 2013	44,305
Provided in the period	690
At 30 June 2013	44,995
<b>Net Book Value</b>	
<b>At 30 June 2013</b>	<b>(12,125)</b>
At 31 December 2012	(12,815)

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**Bridgehouse Marine Limited**

**Notes to the interim condensed consolidated financial statements for the periods ended 30 June 2014 and 30 June 2013(continued)**

**3 Tangible assets**

	Cable-ships and submersibles £'000	Assets under construction	Motor vehicles and plant £'000	Land & Buildings Short leasehold £'000	Total £'000
<b>Cost or valuation</b>					
At 1 January 2014	132,217	7,108	12,943	12,494	<b>164,762</b>
Exchange rate revaluation	(1,139)	—	—	—	<b>(1,139)</b>
Additions	—	961	—	—	<b>961</b>
Disposals	(56)	—	—	—	<b>(56)</b>
Reclassification	7,013	(7,013)	—	—	<b>—</b>
At 30 June 2014	<u>138,035</u>	<u>1,056</u>	<u>12,943</u>	<u>12,494</u>	<b><u>164,528</u></b>
<b>Accumulated depreciation</b>					
At 1 January 2014	41,147	—	12,850	8,902	<b>62,899</b>
Exchange rate revaluation	(185)	—	—	1	<b>(184)</b>
Provided for the period	5,239	—	5	135	<b>5,379</b>
Disposals	(31)	—	—	—	<b>(31)</b>
At 30 June 2014	<u>46,170</u>	<u>—</u>	<u>12,855</u>	<u>9,038</u>	<b><u>68,063</u></b>
<b>Net book value</b>					
<b>At 30 June 2014</b>	<b><u>91,865</u></b>	<b><u>1,056</u></b>	<b><u>88</u></b>	<b><u>3,456</u></b>	<b><u>96,465</u></b>
At 31 December 2013	<u>91,070</u>	<u>7,108</u>	<u>93</u>	<u>3,592</u>	<b><u>101,863</u></b>
<b>Cost or valuation</b>					
At 1 January 2013	131,071	889	12,951	12,496	<b>157,407</b>
Exchange rate revaluation	2,110	—	—	—	<b>2,110</b>
Additions	—	2,835	21	—	<b>2,856</b>
Disposals	(1,193)	—	(34)	—	<b>(1,227)</b>
Reclassification	126	(126)	—	—	<b>—</b>
At 30 June 2013	<u>132,114</u>	<u>3,598</u>	<u>12,938</u>	<u>12,496</u>	<b><u>161,146</u></b>
<b>Accumulated depreciation</b>					
At 1 January 2013	32,134	—	12,564	8,465	<b>53,163</b>
Exchange rate revaluation	87	—	—	—	<b>87</b>
Provided for the period	5,192	—	72	171	<b>5,435</b>
Disposals	(1,179)	—	(33)	—	<b>(1,212)</b>
At 30 June 2013	<u>36,234</u>	<u>—</u>	<u>12,603</u>	<u>8,636</u>	<b><u>57,473</u></b>
<b>Net book value</b>					
<b>At 30 June 2013</b>	<b><u>95,880</u></b>	<b><u>3,598</u></b>	<b><u>335</u></b>	<b><u>3,860</u></b>	<b><u>103,673</u></b>
At 31 December 2012	<u>98,937</u>	<u>889</u>	<u>387</u>	<u>4,031</u>	<b><u>104,244</u></b>

## Bridgehouse Marine Limited

### Notes to the interim condensed consolidated financial statements for the periods ended 30 June 2014 and 30 June 2013(continued)

#### 4 Investments

	Joint Ventures*	Associates*	Sub Total	Other investment	Total
	£'000	£'000	£'000	£'000	£'000
At 1 January 2014	14,974	31,693	<b>46,667</b>	—	<b>46,667</b>
Exchange rate revaluation	(472)	(1,426)	<b>(1,898)</b>	—	<b>(1,898)</b>
Additions	—	—	—	—	—
Dividends received	—	(1,145)	<b>(1,145)</b>	—	<b>(1,145)</b>
Share of retained profit for the period	300	1,095	<b>1,395</b>	—	<b>1,395</b>
<b>At 30 June 2014</b>	<b>14,802</b>	<b>30,217</b>	<b>45,019</b>	—	<b>45,019</b>
At 1 January 2013	17,172	30,680	<b>47,852</b>	60	<b>47,912</b>
Exchange rate revaluation	439	2,099	<b>2,538</b>	—	<b>2,538</b>
Additions	—	—	—	126	<b>126</b>
Dividends received	(926)	—	<b>(926)</b>	—	<b>(926)</b>
Share of retained profit for the period	533	853	<b>1,386</b>	—	<b>1,386</b>
<b>At 30 June 2013</b>	<b>17,218</b>	<b>33,632</b>	<b>50,850</b>	<b>186</b>	<b>51,036</b>

\*Share of net assets

#### 5 Debtors

	2014	2013
	£'000	£'000
<b>Amounts due within one year:</b>		
Trade debtors	22,551	19,524
VAT	—	298
Other debtors	17,675	12,759
Prepayments and accrued income	5,051	7,466
	<b>45,277</b>	<b>40,047</b>
<b>Amounts due after more than one year:</b>		
Other debtors	4,465	4,614

#### 6 Cash at bank and in hand

	2014	2013
	£'000	£'000
Cash at bank	19,468	33,410
Restricted cash	1,715	—
	<b>21,183</b>	<b>33,410</b>

**Bridgehouse Marine Limited**

**Notes to the interim condensed consolidated financial statements for the periods ended 30 June 2014 and 30 June 2013(continued)**

**7 Creditors: amounts due within one year**

	<u>2014</u>	<u>2013</u>
	£'000	£'000
Trade creditors	8,328	2,348
Obligations under finance leases and hire purchase contracts	2,157	21,897
Obligations under loans	2,606	—
UK Corporation tax	31	33
Other taxation and social security	705	472
Other creditors	2,916	3,007
Accruals and deferred income	23,357	17,401
	<u>40,100</u>	<u>45,158</u>

**8 Creditors: amounts falling due after more than one year**

	<u>2014</u>	<u>2013</u>
	£'000	£'000
Obligations under finance leases and hire purchase contracts	34,987	41,144
Obligations under loans	8,547	—
Accruals and deferred income	4,457	3,917
	<u>47,991</u>	<u>45,061</u>

**9 Provision for liabilities**

	<u>SPA settlement provision</u>	<u>Insurance Provisions</u>	<u>Deferred tax</u>	<u>Total</u>
	£'000	£'000	£'000	£'000
At 1 January 2014	17,942	725	618	19,285
Exchange adjustment	—	—	(12)	(12)
Paid during the period	(17,942)	—	—	(17,942)
At 30 June 2014	<u>—</u>	<u>725</u>	<u>606</u>	<u>1,331</u>
At 1 January 2013	9,480	905	652	11,037
Exchange adjustment	—	—	17	17
At 30 June 2013	<u>9,480</u>	<u>905</u>	<u>669</u>	<u>11,054</u>

**Bridgehouse Marine Limited****Notes to the interim condensed consolidated financial statements for the periods ended 30 June 2014 and 30 June 2013(continued)****10 Called up share capital**

	<u>2014</u>	<u>2013</u>
	<u>£'000</u>	<u>£'000</u>
<b>Authorised</b>		
2,000,000 ordinary shares of £1 each	<u>2,000</u>	<u>2,000</u>
<b>Allotted, called up and fully paid</b>		
1,266,000 ordinary shares of £1 each	<u>1,266</u>	<u>1,266</u>

**11 Reserves**

	<u>Revaluation reserve</u>	<u>Profit and loss account</u>
	<u>£'000</u>	<u>£'000</u>
At 1 January 2014	32,431	39,740
Profit for the financial period	-	8,504
Depreciation on revalued assets	(1,465)	1,465
Net translation differences on foreign currency	(371)	(1,338)
<b>At 30 June 2014</b>	<u>30,595</u>	<u>48,371</u>
At 1 January 2013	35,763	43,864
Profit for the financial period	-	7,550
Depreciation on revalued assets	(1,625)	1,625
Net translation differences on foreign currency	542	2,207
<b>At 30 June 2013</b>	<u>34,680</u>	<u>55,246</u>

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**Bridgehouse Marine Limited**

**Notes to the interim condensed consolidated financial statements for the periods ended 30 June 2014 and 30 June 2013(continued)**

**12 Statement of changes in equity**

	<u>Share capital</u>	<u>Revaluation reserve</u>	<u>Retained profits</u>	<u>Total shareholders' funds</u>
	£'000	£'000	£'000	£'000
At 1 January 2014	1,266	32,431	39,740	<b>73,437</b>
Profit for the financial period	—	—	8,504	<b>8,504</b>
Depreciation on revalued assets	—	(1,465)	1,465	—
Currency translation differences on foreign currency net investments	—	(371)	(1,338)	<b>(1,709)</b>
<b>At 30 June 2014</b>	<b><u>1,266</u></b>	<b><u>30,595</u></b>	<b><u>48,371</u></b>	<b><u>80,232</u></b>
At 1 January 2013	1,266	35,763	43,864	<b>80,893</b>
Profit for the financial period	—	—	7,550	<b>7,550</b>
Depreciation on revalued assets	—	(1,625)	1,625	—
Currency translation differences on foreign currency net investments	—	542	2,207	<b>2,749</b>
<b>At 30 June 2013</b>	<b><u>1,266</u></b>	<b><u>34,680</u></b>	<b><u>55,246</u></b>	<b><u>91,192</u></b>

**13 Reconciliation of cash flow to movement in net debt**

	<u>2014</u>	<u>2013</u>
	£'000	£'000
(Decrease) / increase in cash	<b>(4,800)</b>	<b>3,643</b>
Cash inflow from change in debt	<b><u>6,618</u></b>	<b><u>2,033</u></b>
Movement in net debt resulting from cash flows	<b>1,818</b>	<b>5,676</b>
Exchange Translation	<b><u>1,185</u></b>	<b><u>(2,739)</u></b>
Movement in net debt	<b>3,003</b>	<b>2,937</b>
Opening net debt	<b><u>(30,117)</u></b>	<b><u>(32,568)</u></b>
Closing net debt	<b><u>(27,114)</u></b>	<b><u>(29,631)</u></b>

**Bridgehouse Marine Limited**

**Notes to the interim condensed consolidated financial statements for the periods ended 30 June 2014 and 30 June 2013(continued)**

**14 Analysis of net debt**

	<u>At 1 January 2014</u>	<u>Cash flow</u>	<u>Exchange adjustment</u>	<u>At 30 June 2014</u>
	£'000	£'000	£'000	£'000
Cash at bank and in hand	25,983	(4,800)	—	<b>21,183</b>
Finance leases	(56,100)	18,179	777	<b>(37,144)</b>
Loans	—	(11,561)	408	<b>(11,153)</b>
		6,618		
Total	<u>(30,117)</u>	<u>1,818</u>	<u>1,185</u>	<u><b>(27,114)</b></u>

Cash at bank and in hand includes an amount of £1,715,000 which is held in a security account for the purposes of the new loan arrangement in the year.

	<u>At 1 January 2013</u>	<u>Cash flow</u>	<u>Exchange adjustment</u>	<u>At 30 June 2013</u>
	£'000	£'000	£'000	£'000
Cash at bank and in hand	29,767	3,643	—	<b>33,410</b>
Finance leases	(62,335)	2,033	(2,739)	<b>(63,041)</b>
Total	<u>(32,568)</u>	<u>5,676</u>	<u>(2,739)</u>	<u><b>(29,631)</b></u>