

Registered number: 00056211

# **GKN Freight Services Limited**

## **Annual Report and Financial Statements**

For the year ended 31 December 2018

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# GKN Freight Services Limited

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## GKN Freight Services Limited

### Strategic Report

For the year ended 31 December 2018

The Directors present the Strategic Report for the year ended 31 December 2018.

#### Business Review

GKN Freight Services Limited is a freight management company providing integrated supply chain support solutions, with our services embracing all modes of transport by road, rail, sea and air. We operate in Europe, North and South America and Asia. Revenue in 2018 totalled £73,984,000 (2017: £70,525,000) following the transfer of all European freight management activities performed by GKN Freight Services GmbH transferring into GKN Freight Services Limited in Q1 2017.

The profit before taxation for the year ended 31 December 2018 amounted to £609,000 (2017: loss of £2,129,000), which arose due to planned business restructuring and investment in business processes.

#### Principal Risks and Uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of Melrose Industries plc. Melrose Industries plc annual report is where we as a Group discuss principal risks and mitigation plans. The Group's position on Brexit is outlined there: *Brexit does present potential risks that the business units continue to monitor and assess closely relating to potential changes to the cross-border trade and regulatory environment. The Board continues to assess and review mitigation plans.*

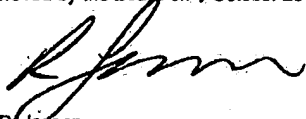
#### Key Performance Indicators

The Company's operations are managed on a divisional/Group basis. For this reason, the Company's Directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the business of the Company. The development, performance and position of the GKN Automotive division, which includes this Company, is discussed on pages 24 to 27 of Melrose Industries plc's annual report which does not form part of this report.

#### Future Outlook

The Company will continue to focus on value creation through efficient freight management.

Approved by the Board on 4 October 2019 and signed on its behalf by:



Mr R. Jenson  
Director  
GKN Freight Services Limited  
PO Box 55, Ipsley House  
Ipsley Church Lane  
Redditch  
Worcestershire  
B98 0TL

# GKN Freight Services Limited

## Directors' Report

For the year ended 31 December 2018

The Directors present the Directors' Report and the audited Financial Statements for the year ended 31 December 2018.

### Directors of the Company

The Directors who held office during the year and up to the date of signing the Financial Statements are as follows:

Mr R Davies (resigned 15 March 2019)  
Mr A Buller (resigned 31 January 2019)  
Mr Steve Ansell (resigned 16 August 2019)  
Mr J Crawford (appointed 4 July 2018)  
Mr G Barnes (appointed 4 July 2018)  
Mr M Richards (appointed 4 July 2018)  
Mr G Morgan (appointed 4 July 2018)  
Mr Steve Ansell (appointed 28 November 2018)  
Ms Sheener Ooi (appointed 15 March 2019)  
Mr R Jesson (appointed 19 August 2019)

### Financial results

The income statement of the Company shows a profit for the financial year of £773,000 (2017: loss of £1,743,000).

### Going Concern

The Financial Statements have been prepared under the going concern basis. At 31 December 2018, the Company had net assets of £8,162,000 (2017: £7,066,000). The company does not hold a cash balance as there is a facility within the group where all cash balances are swept into the central treasury function. The treasury balances are held by another group undertaking and amount to £10,622,000 at 31 December 2018 (2017: £8,743,000). The treasury balance can be drawn upon at any time to fund working capital requirements.

### Dividends

No interim dividend was paid for the year ended 31 December 2018 (2017: £nil). The Directors have not proposed a final dividend for the year ended 31 December 2018 (2017: £nil).

The dividend in respect of the Company's 6% cumulative preference shares was waived.

### Future developments

The Company intends to continue operating as a freight management company providing integrated supply chain support solutions, with our services embracing all modes of transport by road, rail, sea and air.

### Events after the balance sheet date

There have been no significant events since the balance sheet date which should be considered for a proper understanding of these financial statements.

### Financial risk management

The Company's operations expose it to a variety of financial risks including the effects of credit risk. As a subsidiary of Melrose Industries plc all the Company's funding is provided through a fellow subsidiary via a current account. The overarching Group policies in relation to external risks, including interest rate risk, price risk, credit risk, cash flow risk, foreign exchange risk and liquidity risk, all of which are managed centrally by the Melrose Industries plc Group Treasury function, are discussed in the Director's report on pages 46 to 48 of the annual report of Melrose Industries plc. The Company does not use derivative financial instruments to manage interest rate costs.

Where the Company enters into transactions with inherent external counter-party risk, exposures are assessed in line with Melrose Industries Plc policies and guidance.

### Branches

The company had branches, as defined in section 1046(3) of the Companies Act 2006, outside the UK as follows:

Brazil  
Italy (closed in 2018)  
Spain (closed in 2018)

## GKN Freight Services Limited

### Directors' Report (continued)

For the year ended 31 December 2018

#### Directors' Indemnities

Pursuant to the articles of association, the company has executed a deed poll of Indemnity for the benefit of the Directors of the Company and persons who were Directors of the Company in respect of costs of defending claims against them and third-party liabilities. These provisions, deemed to be qualifying third-party indemnity provisions pursuant to section 234 of the Companies Act 2006, were in force during the year ended 31 December 2018 and remains in force. The indemnity provision in the Company's articles of association also extends to provide a limited indemnity in respect of liabilities incurred as a director, secretary or officer of an associated company of the Company.

A copy of the deed poll of indemnity is available for inspection at the group's registered office during normal business hours.

#### Independent Auditors

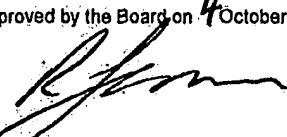
Each of the persons who is a director at the date of approval of this report confirms that:

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

Deloitte LLP have expressed their willingness to continue in office as auditor and appropriate arrangements are being made for them to be deemed reappointed as auditor in the absence of an Annual General Meeting.

Approved by the Board on 4 October 2019 and signed on its behalf by:



Mr B. Jesson  
Director  
GKN Freight Services Limited  
PO Box 55, Ipsley House  
Ipsley Church Lane  
Redditch  
Worcestershire  
B98 0TL

## GKN Freight Services Limited

### Statement of directors' responsibilities in respect of the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 'Reduced Disclosure Framework'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

# **Independent auditors' report to the members of GKN Freight Services Limited**

## **Report on the audit of the financial statements**

### **Opinion**

In our opinion the financial statements of GKN Freight Services Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 16.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Conclusions relating to going concern**

We are required by ISAs (UK) to report in respect of the following matters where:

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

We have nothing to report in respect of these matters.

### **Other Information**

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in respect of these matters.

### **Responsibilities of directors**

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

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

## Independent auditors' report to the members of GKN Freight Services Limited

### Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### Report on other legal and regulatory requirements

#### Opinions on other matters prescribed by the Companies Act 2006

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

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

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

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

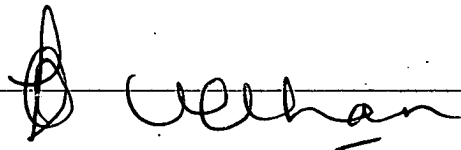
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

#### Use of our report

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



Lee Welham (Senior statutory auditor)  
For and on behalf of Deloitte LLP  
Statutory Auditor  
Cambridge, United Kingdom

4 October 2019



# GKN Freight Services Limited

## Income Statement

For the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Revenue	2	73,984	70,525
Cost of sales		(63,954)	(60,471)
<b>Gross profit</b>		<b>10,030</b>	<b>10,054</b>
Operating expenses		(7,001)	(8,375)
<b>Operating Profit</b>		<b>3,029</b>	<b>1,679</b>
Other expenditure	3	(2,353)	(3,704)
Interest payable and similar charges		(57)	(87)
Interest receivable and similar income		28	48
Other net financing charges		(38)	(65)
<b>Net financing costs</b>	4	<b>(67)</b>	<b>(104)</b>
<b>Profit/(Loss) before taxation</b>	5	<b>609</b>	<b>(2,129)</b>
<b>Taxation Credit</b>	6	<b>164</b>	<b>386</b>
<b>Profit/(Loss) for the financial year</b>		<b>773</b>	<b>(1,743)</b>

Revenue and operating profit are all derived from continuing operations.

The accompanying notes on pages 11 to 23 are an integral part of these financial statements.

**Statement of Comprehensive Income**

For the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Profit/(Loss) for the financial year		773	(1,743)
<b>Items that will not be reclassified to profit or loss</b>			
Exchange adjustments in reserve		269	(243)
Actuarial gains	11	65	543
Taxation on actuarial pension movement	6	(11)	(92)
Total other comprehensive income		323	208
<b>Total comprehensive income/(expense) for the year</b>		<b>1,096</b>	<b>(1,535)</b>

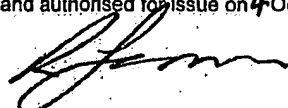
# GKN Freight Services Limited

## Balance Sheet

As at 31 December 2018

	Note	2018 £'000	2017 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	8	117	135
Deferred tax assets	6	677	755
		<b>794</b>	<b>890</b>
<b>Current assets</b>			
Trade and other receivables	9	16,436	18,276
Current tax assets	6	-	857
Cash at bank and in hand		-	274
		<b>16,436</b>	<b>19,406</b>
<b>Total assets</b>		<b>17,230</b>	<b>20,296</b>
<b>Current liabilities</b>			
Trade and other payables	10	(7,688)	(11,727)
		<b>(7,688)</b>	<b>(11,727)</b>
<b>Net current assets</b>		<b>8,748</b>	<b>7,679</b>
<b>Total assets less current liabilities</b>		<b>9,542</b>	<b>8,569</b>
<b>Non-current liabilities</b>			
Post-employment obligations	11	(1,380)	(1,503)
<b>Net assets</b>		<b>8,162</b>	<b>7,066</b>
<b>Shareholder's equity</b>			
Called up share capital	12	129	129
Share premium account	12	4,950	4,950
Retained earnings	12	3,083	1,987
<b>Total equity</b>		<b>8,162</b>	<b>7,066</b>

The financial statements of GKN Freight Services Limited (registered number 00056211) were approved by the board of directors and authorised for issue on 4 October 2019. They were signed on its behalf by:



Mr R. Jesson

Director

GKN Freight Services Limited

PO Box 55, Ipsley House

Ipsley Church Lane

Redditch

Worcestershire

B98 0TL

# GKN Freight Services Limited

## Statement of Changes in Equity

For the year ended 31 December 2018

	Called up share capital £'000	Share premium account £'000	Retained earnings £'000	Total equity £'000
At 1 January 2017	129	4,950	3,522	8,601
Loss for the financial year	-	-	(1,743)	(1,743)
Other comprehensive income	-	-	208	208
Total comprehensive expense for the year	-	-	(1,535)	(1,535)
At 31 December 2017	129	4,950	1,987	7,066
At 1 January 2018	129	4,950	1,987	7,066
Profit for the financial year	-	-	773	773
Other comprehensive income	-	-	323	323
Total comprehensive income for the year	-	-	1,096	1,096
At 31 December 2018	129	4,950	3,083	8,162

**Notes to the Financial Statements**

For the year ended 31 December 2018

**1 Accounting policies and presentation**

GKN Freight Services Limited (the company) is a private company limited by shares, incorporated and domiciled in the UK, and registered in England and Wales with the registration number 00056211. Its registered office is PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL.

The Company's significant accounting policies, which have been consistently applied, are summarised below.

**Basis of preparation**

These statements have been prepared on a going concern basis under the historical cost convention except where other measurement bases are required to be applied and in accordance with IFRS under Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) and in accordance with the Companies Act 2006 as applicable to companies using FRS 101. In accordance with FRS 101, the Company has taken advantage of the exemption not to disclose transactions with related parties.

The functional currency of the Company is considered to be pounds sterling because that is the currency of the primary economic environment in which the Company operates.

These statements have been prepared using all standards and interpretations required for financial periods beginning 1 January 2018. No standards or interpretations have been adopted before the required implementation date.

Exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101.

The following exemptions have been applied in accordance with FRS 101, as the relevant disclosure is contained in the Group Financial Statements of Melrose Industries plc:

- Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payment' (details of the number and weighted-average exercise prices of share options, and how the fair value of goods or services received was determined)
- IFRS 7, 'Financial Instruments: Disclosures'
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities)

The following exemptions have been applied in accordance with FRS 101:

- Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of:  
paragraph 79(a)(iv) of IAS 1  
paragraph 73(e) of IAS 16 Property, plant and equipment
- The following paragraphs of IAS 1, 'Presentation of financial statements':
  - 10(d), (statement of cash flows)
  - 10(f) (a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements),
  - 16 (statement of compliance with all IFRS)
  - 38A (requirement for a minimum of two primary statements, including cash flow statements and notes)
  - 38B-D (additional comparative information)
  - 40A-D (requirements for a third balance sheet)
  - 111 (cash flow statement information)
  - 134-136 (capital management disclosures)
- IAS 7, 'Statement of cash flows'
- Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective)
- Paragraph 17 and 18A of IAS 24, 'Related party disclosures' (key management compensation)  
The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

**Notes to the Financial Statements (continued)**

For the year ended 31 December 2018

**1 Accounting policies and presentation (continued)**

**Going Concern**

The Financial Statements have been prepared under the going concern basis. At 31 December 2018, the Company had net assets of £8,162,000 (2017: £7,066,000). The company does not hold a cash balance as there is a facility within the group where all cash balances are swept into the central treasury function. The treasury balances are held by another group undertaking and amount to £10,622,000 at 31 December 2018 (2017: £8,743,000). The treasury balance can be drawn upon at any time to fund working capital requirements.

**Pensions and post-employment benefits**

The Company's pension arrangements comprise of defined benefit scheme. Contributions to externally funded defined benefit schemes are based on the advice of independent actuaries or in accordance with the rules of the schemes.

The Company also operates a number of defined contribution and defined benefit arrangements which provide certain employees with defined post-employment healthcare benefits.

The Group accounts for all post-employment defined benefit schemes through recognition of the schemes' surpluses or deficits on the balance sheet at the end of each year. Remeasurement of defined benefit plans is included in other comprehensive income. Current and past service costs, curtailments and settlements are recognised within operating profit. Interest charges on net defined benefit plans are recognised in other net financing charges.

For defined contribution arrangements the cost charged to the income statement represents the Group's contributions to the relevant schemes in the year in which they fall due.

**Presentation of the income statement**

IFRS is not fully prescriptive as to the format of the income statement. Line items and subtotals have been presented on the face of the income statement in addition to those required under IFRS.

Operating profit is profit before discontinued operations, taxation and finance costs. In order to achieve consistency and comparability between reporting periods, operating profit is analysed to show separately the results of normal trading performance and individually significant charges and credits. Such items arise because of their size or nature and comprise:

- asset impairment and restructuring charges which arise from events that are significant to the Company;
- changes in the fair value of derivative financial instruments and material currency translation movements arising on intra-group funding;
- income from investments in joint ventures;
- the impact of annual impairment review of investments;
- gains or losses on disposal of investments in subsidiaries;
- significant pension scheme curtailments and settlements.

Net financing costs are analysed to show separately interest payable, interest receivable and other net financing charges. Other net financing charges include the interest charge on net defined benefit plans, specific changes in fair value on cash flow hedges and unwind of discounts on fair value amounts established on business combinations.

**Foreign currencies**

Items included in the financial statements of the Company are measured using the currency of the primary economic environment of operation, determined having regard to the currency which mainly influences revenue and input costs.

Transactions are translated at exchange rates approximating to the rate ruling on the date of the transaction except in the case of material transactions when actual spot rate may be used where it more accurately reflects the underlying substance of the transaction. Where practicable, transactions involving foreign currencies are protected by forward contracts. Assets and liabilities denominated in foreign currencies are translated at the exchange rates ruling at the balance sheet date. Such transactional exchange differences are taken into account in determining profit before tax.

**Notes to the Financial Statements (continued)**

For the year ended 31 December 2018

**1 Accounting policies and presentation (continued)**

**Revenue recognition**

*Revenue*

Revenue from services is measured at the fair value of the consideration receivable which generally equates to the invoiced amount, excluding sales taxes and net of allowances for returns, early settlement discounts and rebates.

For exports, revenue is recognised once the cargo has departed from origin country and for Imports once the cargo has arrived at the destination country.

*Other income*

Interest income is recognised using the effective interest rate method.

**Property, Plant and Equipment**

Property, plant and equipment is stated at cost less accumulated depreciation and impairment charges.

*Cost*

Cost comprises the purchase price plus costs directly incurred in bringing the asset into use. Where assets are in the course of construction at the balance sheet date they are classified as capital work in progress. Transfers are made to other asset categories when they are available for use.

*Depreciation*

Depreciation is not provided on capital work in progress. In the case of all other categories of plant and equipment, depreciation is provided on a straight line basis over the course of the financial year from the date the asset is available for use.

Depreciation is applied to specific classes of asset so as to reduce them to their residual values over their estimated useful lives, which are reviewed annually.

The range of depreciation lives are:

	Years
Plant and Equipment	6 to 15

Plant and equipment is reviewed at least annually for indications of impairment. Impairments are charged to the income statement. Similarly, where property, plant and equipment has been impaired and subsequent reviews demonstrate the recoverable value is in excess of the impaired value an impairment reversal is recorded. The amount of the reversal cannot exceed the theoretical net book amount at the date of the reversal had the item not been impaired. Impairment reversals are credited to the income statement against the same line item to which the impairment was previously charged.

**Financial assets and liabilities**

Financial liabilities are recorded in arrangements where payments, or similar transfers of financial resources, are unavoidable or guaranteed.

Borrowings are measured initially at fair value which usually equates to proceeds received and includes transaction costs. Borrowings are subsequently measured at amortised cost.

Cash and cash equivalents comprise cash on hand and demand deposits, and overdrafts together with highly liquid investments of less than 90 days maturity. Other financial assets comprise investments with more than 90 days' until maturity. Unless an enforceable right of set-off exists and there is an intention to net settle, the components of cash and cash equivalents are reflected on a gross basis in the balance sheet.

Other financial assets and liabilities, including short term receivables and payables, are initially recognised at fair value and subsequently measured at amortised cost less any impairment provision unless the impact of the time value of money is considered to be material.

**Notes to the Financial Statements (continued)**

For the year ended 31 December 2018

**1 Accounting policies and presentation (continued)**

**Taxation**

Current tax and deferred tax are recognised in the income statement unless they relate to items recognised directly in other comprehensive income when the related tax is also recognised in other comprehensive income.

Full provision is made for deferred tax on all temporary differences resulting from the difference between the carrying value of an asset or liability in the consolidated financial statements and its tax base. The amount of deferred tax reflects the expected manner of realisation or settlement of the carrying amount of the assets and liabilities using tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax assets are reviewed at each balance sheet date and are only recognised to the extent that it is probable that they will be recovered against future taxable profits.

**Standards, revisions and amendments to standards and interpretations**

The Company adopted all applicable amendments to standards including IFRS 9 and IFRS 15 with an effective date in 2018 with no material impact on its result, assets and liabilities. All other accounting policies have been applied consistently.

- IFRS 9 'Financial Instruments' (effective from 1 January 2018); and
- IFRS 15 'Revenue from contracts with customers' (effective from 1 January 2018).

**Impact of initial application of IFRS 9 *Financial Instruments***

In the current year, the Company has applied IFRS 9 *Financial Instruments* (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after 1 January 2018. IFRS 9 introduced new requirements for:

1. The classification and measurement of financial assets and financial liabilities,
2. Impairment of financial assets, and
3. General hedge accounting.

Details of these new requirements as well as their impact on the Company's financial statements are described below.

**(a) *Classification and measurement of financial assets***

The date of initial application (i.e. the date on which the Company has assessed its existing financial assets and financial liabilities in terms of the requirements of IFRS 9) is 1 January 2018. Accordingly, the Company has applied the requirements of IFRS 9 to instruments that continue to be recognised as at 1 January 2018 and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018.

The directors of the Company reviewed and assessed the Company's existing financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 does not have any impact on the Company's financial position, profit or loss, other comprehensive income or total comprehensive income in either year.

**(b) *Impairment of financial assets***

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Company to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Specifically, IFRS 9 requires the Company to recognise a loss allowance for expected credit losses on:

- Debt investments measured subsequently at amortised cost; and,
- Trade debtors and contract assets.



**Notes to the Financial Statements (continued)**

For the year ended 31 December 2018

**1 Accounting policies and presentation (continued)**

*(b) Impairment of financial assets (continued)*

In particular, IFRS 9 requires the Company to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL) if the credit risk on that financial instrument has increased significantly since initial recognition, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the Company is required to measure the loss allowance for that financial instrument at an amount equal to 12-months ECL. IFRS 9 also requires a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade debtors and contract assets in certain circumstances.

The directors of the Company reviewed and assessed the Company's existing financial assets and determined that the adoption of IFRS 9 did not have an impact on the recognition of credit losses and, therefore, no restatement to the prior year comparative have been made.

*(c) Classification and measurement of financial liabilities*

A significant change introduced by IFRS 9 in the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of the issuer. Specifically, IFRS 9 requires that the changes in the fair value of the financial liability that is attributable to change in the credit risk of that liability be presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss.

The application of IFRS 9 has had no impact on the classification and measurement of the Company's financial liabilities.

*(d) General hedge accounting*

The company does not have any hedging arrangements falling within the scope of IFRS 9 and therefore the application of IFRS 9 has had no impact.

**Impact of application of IFRS 15 Revenue from Contract with Customers**

In the current year, the Company has applied IFRS 15 *Revenue from Contracts with Customers* (as amended in April 2016) which is effective for an annual period that begins on or after 1 January 2018. IFRS 15 introduced a 5-step approach to revenue recognition. More prescriptive guidance has been added in IFRS 15 to deal with specific scenarios.

The Company's accounting policies for its revenue streams are disclosed in detail within note 1 above. The application of IFRS 15 has not resulted in any changes to the timing or value of revenue recognised in the comparative period and therefore no restatement has been made.

This standard and other revisions to standards and interpretations which have an implementation date in 2019 or thereafter are still being assessed:

- IFRS 16 'Leases' (effective from 1 January 2019).

This standard may have an impact on the reported assets, liabilities and income statement. Furthermore, extensive disclosures will be required by IFRS 16. Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

**Significant judgements, key assumptions and estimates**

The Company's significant accounting policies are set out above. The preparation of financial statements, in conformity with FRS 101 "Reduced Disclosure Framework", requires the use of estimates, subjective judgement and assumptions that may affect the amounts of assets and liabilities at the balance sheet date and reported profit and earnings for the year. The Directors base these estimates, judgements and assumptions on a combination of past experience, professional expert advice and other evidence that is relevant to the particular circumstance.

The accounting policies where the Directors consider the more complex estimates and assumptions have to be made are those in respect of post-employment obligations.

There have been no critical judgements made in the process of applying the Company's accounting policies.

# GKN Freight Services Limited

## Notes to the Financial Statements (continued)

For the year ended 31 December 2018

### 2 Revenue

The Company derives its revenue from the provision of services which fall within the Company's ordinary activity - that of providing integrated supply chain support solutions in freight forwarding. An analysis of revenue by geographical location by destination is given below:

	United Kingdom £'000	USA £'000	Europe £'000	Other countries £'000	Total non-UK £'000	Total £'000
2018 Revenue	12,973	17,066	38,675	5,270	61,011	73,984
2017 Revenue	10,171	15,354	39,148	5,852	60,354	70,525

### 3 Other expenditure

Other expenditure represents amounts credited to GKN Freight Services Eurl and GKN Freight Services GmbH under a profit share agreement.

### 4 Net financing costs

	2018 £'000	2017 £'000
(a) Interest payable and similar charges		
Short term bank and other borrowings	(57)	(87)
Interest receivable and similar income		
Short term investments, loans and deposits	28	48
Net interest payable and receivable	(29)	(39)
(b) Other net financing charges		
Net interest charge on defined benefit plans	(38)	(65)
Net financing costs	(67)	(104)

### 5 Profit/(Loss) before taxation

The analysis of the additional components of operating profit/(loss) is shown below:

	2018 £'000	2017 £'000
Staff costs (note 7)	(3,900)	(4,067)
Reorganisation costs - footnote (i):		
Redundancy and other employee related amounts	(677)	-
Depreciation of property, plant and equipment	(18)	(18)
Amortisation of operating intangible assets	-	(108)
Operating lease rentals payable:		
Plant and equipment	(12)	(3)
Property	(105)	(126)
Audit fees payable to the Company's auditors - footnote (ii)	(62)	(85)
Other costs	(2,173)	(2,705)
Net exchange loss on foreign currency transactions	(54)	(1,263)

(i) Reorganisation costs reflect actions in the ordinary course of business to reduce costs, improve productivity and rationalise facilities into a centralised UK-based hub.

(ii) All fees payable to the Company's auditors relate to the audit of the financial statements. All fees payable have been charged to the income statement.

# GKN Freight Services Limited

## Notes to the Financial Statements (continued)

For the year ended 31 December 2018

### 6 Taxation

#### (a) Analysis of tax (credit)/charge in year

	2018 £'000	2017 £'000
<b>Current tax</b>		
UK corporation tax		
- current year UK corporation tax	-	(387)
- overseas tax	(217)	-
- adjustments to current tax charge in respect of prior years	(14)	11
<b>Total current tax (credit)</b>	<b>(231)</b>	<b>(376)</b>
<b>Deferred tax</b>		
Origination and reversal of temporary differences		
- current year	55	(15)
- adjustments to current tax charge in respect of prior years	12	5
<b>Total deferred tax charge/(credit)</b>	<b>67</b>	<b>(10)</b>
<b>Taxation (credit) on Profit/(loss)</b>	<b>(164)</b>	<b>(386)</b>

#### (b) Factors affecting the tax charge in the year

The tax assessed for the year is different to (2017: different to) the standard rate of corporation tax in the UK of 19% (2017: 19.25%)

	2018 £'000	2017 £'000
<b>Profit/(Loss) on ordinary activities before tax</b>	<b>609</b>	<b>(2,129)</b>
Profit/(Loss) multiplied by the standard UK corporation rate of 19% (2017: 19.25%)	116	(410)
Tax effect of expenditure not deductible/(income not taxable) in determining taxable profits	2	6
Overseas tax credit	(217)	-
Effect of rate change on CY reversal of temporary differences	(7)	2
Group relief surrendered at nil rate	(56)	-
Adjustment to current tax charge in respect of prior periods	(14)	11
Adjustment to deferred tax charge in respect of prior periods	12	5
<b>Total tax (credit) for the year</b>	<b>(164)</b>	<b>(386)</b>

The main rate of UK corporation tax reduced to 19% with effect from 1 April 2017 and will further reduce to 17% with effect from 1 April 2020. These tax rate reductions were substantially enacted at the balance sheet date and have therefore been reflected in the financial statements. At the balance sheet date deferred tax assets and liabilities have been measured at the rate at which they are expected to reverse.

	2018 £'000	2017 £'000
<b>(c) Intercompany balance - tax receivable - UK</b>	<b>-</b>	<b>857</b>

#### (d) Recognised deferred tax

£'000	Post-employment obligations	Fixed asset timing differences	Other	Total
At 1 January 2018	256	57	442	755
Included in the income statement	(10)	271	(328)	(67)
Included in other comprehensive income	(11)	-	-	(11)
<b>At 31 December 2018</b>	<b>235</b>	<b>328</b>	<b>114</b>	<b>677</b>

Deferred tax assets are recognised where, based on management projections, the future availability of taxable profits to absorb the deductions before any applicable time limits expire is probable.

**Notes to the Financial Statements (continued)**

For the year ended 31 December 2018

**7 Employees including Directors**

**(a) Employee benefit expense**

	2018	2017
	£'000	£'000
Wages and salaries	3,183	3,382
Social security costs	460	424
Other pension costs	257	326
	3,900	4,132

**Average monthly number of employees (including Executive Directors)**

	2018	2017
	Number	Number
Administration and support	66	60

**(b) Directors' emoluments**

	2018	2017
	£'000	£'000
Aggregate remuneration	142	60
Aggregate amounts (excluding shares) receivable under long-term incentive schemes	-	-
Aggregate Company contributions to pension schemes	19	6
	161	66

The Directors emoluments for the year are disclosed in accordance with the Companies Act 2006. The Directors are remunerated by another company within the Group and recharged to the Company. Emoluments are apportioned for the services provided by the Directors to the Company.

During 2018, there was no payment in respect of loss of office (2017: £nil).

**Number of Directors receiving benefits and share incentives**

	2018	2017
	Number	Number
Exercised share options	-	-
Accruing benefits under defined benefit pension schemes in respect of qualifying services	-	1
Accruing benefits under money purchase pension schemes in respect of qualifying services	3	2
Received/entitled to receive shares under long term incentive scheme in respect of qualifying services	-	-

Pension benefits are provided to Directors through the GKN Group Pension Scheme 2012 (the Scheme). Directors are entitled to receive benefits under the defined benefit or defined contribution sections of the Scheme depending on when they joined the Group and/or they may choose to take a cash allowance.

1 Director (2017: 1) was entitled to legacy arrangements under the defined benefit section of the Scheme, which closed to future accruals on 30 June 2017. From 1 July 2017 all Directors with qualifying services have accrued benefits under the defined contribution (money purchase) section of the Scheme.

GKN makes contributions to the defined contribution section of the Scheme in respect of Directors' qualifying services. GKN pays a multiple of an individual's contribution depending on the individual's grade.

# GKN Freight Services Limited

## Notes to the Financial Statements (continued)

For the year ended 31 December 2018

8	Property, plant and equipment	Plant and equipment £'000
	<b>Cost</b>	
	At 1 January 2018	169
	<b>Disposals</b>	-
	At 31 December 2018	169
	<b>Accumulated depreciation</b>	
	At 1 January 2018	34
	Charge for the year	18
	Disposals	-
	At 31 December 2018	52
	<b>Net book amount at 31 December 2018</b>	<b>117</b>
	Net book amount at 31 December 2017	135

Plant and equipment is comprised entirely of furniture, fixtures and fittings.

9	Trade and other receivables	2018 £'000	2017 £'000
	Trade receivables	1,434	2,255
	Amounts due from other group undertakings - Trade	4,255	7,008
	Amounts due from other group undertakings - Loan	5,683	6,989
	Amounts due from parent - Loan	4,939	1,754
	Prepayments and accrued income	125	269
		<b>16,436</b>	<b>18,275</b>

Trade receivables are stated after provisions for impairment of £110,000 (2017: £222,000).

Amounts due from Group are unsecured, have no fixed date of repayment and are repayable on demand. Interest is only charged on the loan due from parent at variable market rate determined by Melrose Industries plc treasury.

10	Trade and other payables	2018 £'000	2017 £'000
	Trade creditors	(2,037)	(4,291)
	Amounts due to other group undertakings - Trade	(375)	(345)
	Amounts due to other group undertakings - Recharges	(756)	(1,168)
	Accruals and deferred income	(4,426)	(5,762)
	Other taxes and social security	(94)	(161)
		<b>(7,688)</b>	<b>(11,727)</b>

Amounts owed to Group are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

**Notes to the Financial Statements (continued)**

For the year ended 31 December 2018

**11 Post-employment obligations**

	2018	2017
	£'000	£'000
Post-employment obligations as at the year-end comprise:		
Pensions – funded	(1,380)	(1,503)

The Company's pension arrangements comprise a defined benefit and defined contribution scheme.

The Company's defined benefit pension scheme is funded, albeit in deficit in common with many other UK pension schemes, with the scheme assets held in trustee administered funds.

The Company's defined benefit pension arrangements provide benefits to members in the form of an assured level of pension payable for life. The level of benefits provided typically depends on length of service and salary levels in the years leading up to retirement. Pensions in payment are generally updated in line with inflation. The schemes are also closed to new entrants.

The GKN UK 2012 Pension Plan is a funded plan, closed to new members and was closed to future accrual in 2017. The valuation of the plan was based on a full actuarial valuation as of 5 April 2016, updated at 31 December 2018 by independent actuaries.

**(a) Defined benefit schemes – significant judgements, assumptions and estimates**

Key assumptions:	2018	2017
	%	%
Rate of increase in payment and deferred pensions % per annum	3.10	3.00
Discount rate % per annum	2.90	2.60
Price inflation % per annum	2.10	3.20

Mortality assumptions for all UK pension plans as at 31 December 2018 were based on the Self-Administered Pension Scheme ("SAPS") "S2" base tables. The GKN UK 2012 scheme use scaling factors of 96% for male and 85% for females.

Future improvements for all UK plans are in line with the 2017 Continuous Mortality Investigation ("CMI") improvement model with a long-term rate of improvement of 1.25% p.a. for both males and females.

The following table shows the future life expectancy of individuals aged 65 at the year-end and the future life expectancy of individuals aged 65 in 20 years time.

	GKN 2012 Pension Plan Years
Male today	22.3
Female today	25.1
Male in 20 years time	23.7
Female in 20 years time	26.6

**Assumption sensitivity analysis**

The impact of a one percentage point movement in the primary assumptions (longevity: 1 year) on the defined benefit obligations as at 31 December 2018 is set out below.

	Liabilities £'000
Discount rate +1%	(94)
Discount rate -1%	102
Rate of inflation +1%	84
Rate of inflation -1%	(83)
Life expectancy +1 year	204
Life expectancy -1 year	(202)

The above sensitivity analyses are based on isolated changes in each assumption, whilst holding all other assumptions constant. In practice, this is unlikely to occur, and there is likely to be some level of correlation between movements in different assumptions. In addition, these sensitivities relate only to potential movement in the defined benefit obligations. The assets, including derivatives held by the schemes, have been designed to mitigate the impact of these movements to some extent, such that the movements in the defined benefit obligations shown above would, in practice be partly offset by movements in asset valuations. However, the above sensitivities are shown to illustrate at a high level the scale of sensitivity of the defined benefit obligations to key actuarial assumptions.

**Notes to the Financial Statements (continued)**

For the year ended 31 December 2018

**11 Post-employment obligations (continued)**

The same actuarial methods have been used to calculate these sensitivities as are used to calculate the relevant balance sheet values, and have not changed compared to the previous period.

**Significant judgements and estimates**

The Company's defined benefit pension scheme obligation arises as a result of its participation in the externally funded defined benefit Group pension arrangements of GKN plc. The share of the obligation recognised by the Company is based on the benefits accruing to current and historic members of the scheme that have been employed by the Company.

During the year, GKN 2012, the UK defined benefit pension scheme in which the Company participates, completed its triennial funding valuation as at 31 December 2018.

The Company is part of the GKN 2012 scheme which is funded by Melrose Industries plc who have committed to contribute £51.2m into GKN UK 2012 scheme and of this the Company's share of contribution to fund its deficit is £115k. The Group has committed to contribute 10% of the proceeds from disposal of other GKN businesses and 5% of the proceeds from disposal of non-GKN businesses to the GKN UK pension plans. These commitments cease when the funding target which has been agreed with Trustees is achieved, being gilts plus 75 basis points for the GKN UK 2012 plan.

**(b) Defined benefit schemes – reporting**

The amounts included in operating profit are:

	2018 £'000	2017 £'000
Current service cost	-	(40)
Past service cost	(19)	-

The amounts recognised in the balance sheet are:

	2018 £'000	2017 £'000
Present value of funded obligations	(5,886)	(6,181)
Fair value of plan assets	4,506	4,678
Net obligations recognised in the balance sheet	(1,380)	(1,503)

Cumulative remeasurement of defined benefit plan differences recognised in equity are as follows:

	2018 £'000	2017 £'000
At 1 January	(1,886)	(2,429)
Remeasurement of defined benefit plans	65	543
At 31 December	(1,821)	(1,886)

Movement in schemes' assets and unfunded liabilities during the year:

	2018			2017		
	Assets £'000	Liabilities £'000	Total £'000	Assets £'000	Liabilities £'000	Total £'000
At 1 January	4,678	(6,181)	(1,503)	3,986	(6,514)	(2,528)
Current service cost	-	-	-	-	(40)	(40)
Past service cost	-	(19)	(19)	-	-	-
Interest	120	(158)	(38)	103	(168)	(65)
Remeasurement of defined benefit plans	(182)	247	65	221	322	543
Contributions by Company	115	-	115	586	-	586
Benefits and administrative expenses paid	(225)	225	-	(218)	219	1
At 31 December	4,506	(5,886)	(1,380)	4,678	(6,181)	(1,503)

## Notes to the Financial Statements (continued)

For the year ended 31 December 2018

## 11 Post-employment obligations (continued)

Remeasurement gains and losses in relation to the scheme's obligations are as follows:

	2018 £'000	2017 £'000
Experience gains and losses	(25)	-
Changes in financial assumptions	255	126
Change in demographic assumptions	17	196
	247	322

The fair values of the assets in the scheme were:

	2018 £'000	2017 £'000
Equities	1,032	990
Diversified growth funds	1,520	1,552
Bonds – government	1,109	807
Bonds – corporate	489	498
Property	303	284
Cash and others	53	547
At 31 December	4,506	4,678

## (c) Defined benefit scheme – risk factors

Through its post-employment pension plans, the Company is exposed to a number of risks, the most significant of which are detailed below. The Company's focus is on managing the cash demands which the various pension plans place on the Company, rather than balance sheet volatility in its own right. For funded schemes cash requirements are generally determined by funding valuations which are performed on a different basis from accounting valuations.

**Asset volatility:** Plan liabilities are calculated using discount rates set with reference to bond yields (although the discount rate methodology differs for accounting and funding purposes). If plan assets deliver a return which is lower than the discount rate, this will create or increase a plan deficit. The Company's various pension plans hold a significant proportion of equities and similar 'growth assets', which are expected to out-perform bonds in the long-term, albeit at the risk of short term volatility.

As the plans mature, with a shorter time horizon to cope with volatility, the Company will gradually reduce holdings of growth assets in favour of increased matching assets (bonds and similar). In the meantime, the Company considers that equities and similar assets are an appropriate means of managing pension funding requirements, given the long term nature of the liabilities and the strength of the Company to withstand volatility.

**Changes in bond yields:** A decrease in bond yields will typically increase plan liabilities (and vice-versa), although this will be offset partially by an increase in the value of bonds held in the asset portfolios of the various plans. The effect of changes in bond yields is more pronounced in unfunded schemes where there is no potential for an offsetting movement in asset values.

**Inflation risk:** As pension obligations are linked to inflation, higher inflation expectations will lead to higher liabilities, although caps are in place to protect against unusually high levels of inflation. The asset portfolio includes some inflation linked bonds to provide an element of protection against this risk, whilst additional protection is provided by inflation derivatives.

**Member longevity:** As the Company's post-employment obligations are generally to provide benefits for the life of the member, increases in life expectancy will generally result in an increase in plan liabilities (and vice versa).

## (d) Defined contribution schemes

The charge to the income statement in the year from the defined contribution scheme was £256,000 (2017: £186,000).



# GKN Freight Services Limited

## Notes to the Financial Statements (continued)

For the year ended 31 December 2018

### 12 Called up share capital and reserves

	2018		2017	
	Number	£'000	Number	£'000
<b>Authorised</b>				
Ordinary shares of £5 each	20,000	100	20,000	100
6% cumulative non-redeemable preference shares of £5 each	10,000	50	10,000	50
At 1 January and 31 December	30,000	150	30,000	150
<b>Allotted, called up and fully paid</b>				
Ordinary shares of £5 each	20,000	100	20,000	100
6% cumulative non-redeemable preference shares of £5 each	5,795	29	5,795	29
At 1 January and 31 December	25,795	129	25,795	129

The 6% cumulative preference shares are non-redeemable and have restricted voting rights with a priority on winding up to capital and dividends in arrears. The dividend for the year ended 31 December 2018 was waived (2017: waived).

The Company's other reserves are as follows:

The share premium reserve contains the premium arising on issue of equity shares, net of issue expenses.

Retained earnings reserve represents cumulative profits or losses, net of dividends paid and other adjustments.

### 13 Operating lease commitments

#### Commitments: minimum lease payments

The minimum lease payments which the Company is committed to make at 31 December are:

	2018		2017	
	Property £'000	Plant and equipment £'000	Property £'000	Plant and equipment £'000
<b>Payments under non-cancellable operating leases:</b>				
Not later than one year	105	-	155	-
Later than one year and not later than five years	622	-	621	-
Later than five years	284	-	388	-
	1,011	-	1,164	-

### 14 Related party transactions

In accordance with FRS 101 the Company has taken advantage of the exemption not to disclose the transactions with other Group undertakings. There were no other related party transactions during the year.

### 15 Controlling parties

The immediate parent is GKN Enterprise Limited, a company incorporated in England and Wales. The ultimate parent undertaking and controlling party at the time of approving the financial statements is Melrose Industries plc.

The parent of the smallest and largest group in which these results are consolidated is Melrose Industries plc. Consolidated financial statements of Melrose Industries plc are available from 11<sup>th</sup> Floor, The Colmore Building, Colmore Circus Queensway, Birmingham, B4 6AT, which is also the registered address of this Company.

### 16 Post balance sheet events

There were no material events after the reporting year that give rise to an adjustment in the financial statements or require disclosures to be made.