

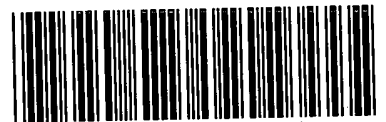
Registration number: 00111849

# Brush Electrical Machines Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2015

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## **Brush Electrical Machines Limited**

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## **Brush Electrical Machines Limited**

### **Company Information**

<b>Directors</b>	G E Barnes
	G P Martin
	G D Morgan
	A G Peart
	S A Peckham
	M J Richards
<b>Company secretary</b>	B P Hewitson
<b>Registered office</b>	11th Floor
	The Colmore Building
	20 Colmore Circus Queensway
	Birmingham
	West Midlands
<b>Auditors</b>	B4 6AT
	Deloitte LLP
	Chartered Accountants
	Birmingham
	United Kingdom

## **Brush Electrical Machines Limited**

### **Strategic Report for the Year Ended 31 December 2015**

The Directors present their Strategic Report for the year ended 31 December 2015.

#### **Principal activity**

The Company's principal activity is that of an engineering company specialising in the manufacture and sale of electrical machines.

#### **Fair review of the business**

Turnover for the year ended 31 December 2015 was £77,459,000 (year ended 31 December 2014: £116,388,000). The operating loss for the year ended 31 December 2015 was £40,652,000 (year ended 31 December 2014: loss of £23,322,000). The retained loss for the year ended 31 December 2015 was £26,734,000 (year ended 31 December 2014: loss of £26,909,000).

The Company considers its key performance indicators to be in line with those of Melrose Industries PLC as disclosed in the Strategic Report of the 2015 Annual Report.

The Company is performing broadly in line with expectations in a tough market. Turnover decreased during the year by 33%, primarily as a result of the continued difficult conditions in new-build end markets. Aftermarket revenues also experienced a small decline during the year as customers in the Oil & Gas sector have been under pressure to cut back on repair work and save costs.

Operating profit, excluding the impact of operating exceptional expenses, decreased during the year by 73%. This decline is directly as a result of the reduction in revenue which occurred during the year.

Reorganisation expenses of £5,216,000 have been recognised during the year. These relate primarily to headcount reductions and have been incurred in order to realign the cost base of the business with the reduced level of revenues. In addition, a review of the carrying value of the Company's investments during the year identified impairments totalling £41,674,000.

End markets continue to remain challenging. However, as a result of the cost structure actions undertaken, along with the strategic actions being taken in relation to the Company's customer base, the Directors are confident that the medium to long term trading prospects of the Company are good.

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

The Company considers its principal risks and uncertainties to be in line with those of Melrose Industries PLC as disclosed in the Performance Review section of the 2015 Annual Report.

#### **Financial risk management**

The Company's activities expose it to a number of financial risks including credit risk, cash flow risk and liquidity risk. The use of financial derivatives is governed by the Company's policies and approved by the Board of Directors, which provide written principles on the use of financial derivatives to manage these risks. The Company does not use derivative financial instruments for speculative purposes.

## **Brush Electrical Machines Limited**

### **Strategic Report for the Year Ended 31 December 2015**

#### ***Principal risks***

##### **Credit risk**

The Company's principal financial assets are bank balances and trade and other receivables (including amounts due from other Group undertakings).

The Company's credit risk is primarily attributable to its trade receivables and receivables from other Group undertakings. The amounts presented in the Balance Sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Company has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

##### **Cash flow risk**

The Company's activities expose it to the financial risks of changes in foreign currency exchange rates. The Company uses foreign exchange forward contracts to hedge these exposures.

##### **Liquidity risk**

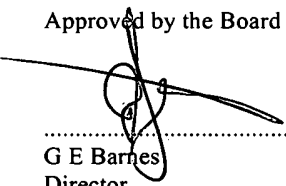
To maintain liquidity and ensure that sufficient funds are available for ongoing operations and future developments, the Company ensures regular communication with other Group companies.

##### **Going concern**

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis in preparing the annual financial statements.

Further details regarding the adoption of the going concern basis can be found in the Statement of accounting policies in the financial statements.

Approved by the Board on 22 September 2016 and signed on its behalf by:



.....  
G E Barnes  
Director

## **Brush Electrical Machines Limited**

### **Directors Report for the Year Ended 31 December 2015**

The Directors present their report and the financial statements for the year ended 31 December 2015. An indication of likely future developments in the business of the Company is included in the Strategic Report. Information on financial risk management and going concern are also included in the Strategic Report.

#### **Directors of the Company**

The directors who held office during the year were as follows:

G E Barnes

G P Martin

G D Morgan

A G Peart

S A Peckham

M J Richards

No director had a beneficial interest in the share capital of the Company or any of its subsidiaries, except for the fact that each Director held shares and/or options over shares in Melrose Industries PLC, the ultimate parent company and controlling party, and therefore had an indirect beneficial interest in the Company.

#### **Dividends**

The Directors do not recommend the payment of a final dividend in respect of the financial year ended 31 December 2015 (year ended 31 December 2014: £nil).

#### **Employment of disabled persons**

Applications for employment by disabled persons are always fully considered, bearing in mind the abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Company continues and that appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

#### **Employee involvement**

The Company places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Company. The Company has developed a wide range of voluntary practices and procedures for employee involvement. The Company encourages this approach to provide information and consultation and believes this promotes understanding of the issues facing the individual business in which the employee works.

It is Company policy to achieve and maintain a high standard of health and safety by all practical means and the active involvement of employees in matters of health and safety is encouraged.

#### **Research and development**

Product development and innovation is a continuous process. The Company has committed additional resources to the development of new products to enhance the organic growth of the business. The Company incurred research and development costs of £39,000 during the year (year ended 31 December 2014: £158,000).

#### **Directors liabilities**

The ultimate parent undertaking has indemnified one or more Directors of the Company against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision was in force throughout the year and at the date of this report.

## **Brush Electrical Machines Limited**

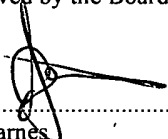
### **Directors Report for the Year Ended 31 December 2015**

#### **Disclosure of information to the auditors**

Each Director has taken steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information. The Directors confirm that there is no relevant information that they know of and of which they know the auditor is unaware.

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

Approved by the Board on 22 September 2016 and signed on its behalf by:

  
.....  
G E Barnes  
Director

## **Brush Electrical Machines Limited**

### **Statement of Directors' Responsibilities**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

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

- select suitable accounting policies and 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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



## **Brush Electrical Machines Limited**

### **Independent Auditor's Report to the members of Brush Electrical Machines Limited**

We have audited the financial statements of Brush Electrical Machines Limited for the year ended 31 December 2015, set out on pages 9 to 51. 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), including FRS 101 'Reduced Disclosure Framework'.

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 in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of directors and auditor**

As explained more fully in the Statement of Directors' Responsibilities (set out on page 6), 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 (APB's) Ethical Standards for Auditors to the financial statements.

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

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

#### **Opinion on the financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2015 and of its 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.

#### **Opinion on other matter prescribed by the Companies Act 2006**

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

## **Brush Electrical Machines Limited**

### **Independent Auditor's Report to the members of Brush Electrical Machines Limited**

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

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

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



Peter Gallimore, FCA (Senior Statutory Auditor)  
For and on behalf of Deloitte LLP, Statutory Auditor

Birmingham  
United Kingdom

22 September 2016

# Brush Electrical Machines Limited

## Profit and Loss Account for the Year Ended 31 December 2015

	Note	2015 £ 000	Restated 2014 £ 000
Turnover	4	77,459	116,388
Cost of sales		<u>(54,092)</u>	<u>(75,714)</u>
Gross profit		23,367	40,674
Distribution costs		(7,559)	(8,349)
Administrative expenses		(9,570)	(9,034)
Exceptional operating items	5	<u>(46,890)</u>	<u>(46,613)</u>
Operating loss	6	(40,652)	(23,322)
Income from shares in group undertakings		16,400	-
Interest receivable and similar income	8	1,008	448
Interest payable and similar charges	9	<u>(3,196)</u>	<u>(3,351)</u>
Loss before tax		(26,440)	(26,225)
Tax on loss on ordinary activities	12	<u>(294)</u>	<u>(684)</u>
Loss for the year		<u><u>(26,734)</u></u>	<u><u>(26,909)</u></u>

The above results were derived from continuing operations.

## Brush Electrical Machines Limited

### Statement of Comprehensive Income for the Year Ended 31 December 2015

	2015 £ 000	Restated 2014 £ 000
Loss for the year	<u>(26,734)</u>	<u>(26,909)</u>
<b>Items that will not be reclassified subsequently to profit or loss</b>		
Remeasurements of post employment benefit obligations	26,245	(2,250)
Income tax effect	<u>(5,249)</u>	<u>450</u>
	<u>20,996</u>	<u>(1,800)</u>
<b>Items that may be reclassified subsequently to profit or loss</b>		
Gain/(loss) on cash flow hedges (net)	(131)	(713)
Income tax effect	<u>26</u>	<u>143</u>
	<u>(105)</u>	<u>(570)</u>
Total comprehensive income for the year	<u><u>(5,843)</u></u>	<u><u>(29,279)</u></u>

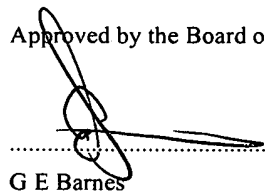
# Brush Electrical Machines Limited

(Registration number: 00111849)  
Balance Sheet as at 31 December 2015

	Note	2015 £ 000	Restated 2014 £ 000
<b>Fixed assets</b>			
Intangible assets	13	907	1,082
Property, plant and equipment	14	14,373	14,777
Investments	15	354,610	396,284
Deferred tax assets	22	-	4,810
Retirement benefit assets	23	1,364	-
		<u>371,254</u>	<u>416,953</u>
<b>Current assets</b>			
Inventories	16	16,902	11,017
Trade and other receivables	17	69,128	59,915
Derivative financial instruments	28	113	-
Cash at bank and in hand		6,700	1,981
		<u>92,843</u>	<u>72,913</u>
<b>Creditors: Amounts falling due within one year</b>			
Trade and other payables	18	(107,358)	(94,054)
Loans and borrowings	20	-	(4,626)
Derivative financial instruments	28	(821)	(909)
Provisions	21	(702)	(1,392)
		<u>(108,881)</u>	<u>(100,981)</u>
Creditors: Amounts falling due within one year			
Net current liabilities		<u>(16,038)</u>	<u>(28,068)</u>
Total assets less current liabilities		<u>355,216</u>	<u>388,885</u>
<b>Creditors: Amounts falling due after more than one year</b>			
Trade and other payables	19	(304,308)	(304,308)
Creditors: Amounts falling due after more than one year		<u>(304,308)</u>	<u>(304,308)</u>
Deferred tax liabilities	22	(574)	-
Retirement benefit obligations	23	-	(28,400)
Net assets		<u>50,334</u>	<u>56,177</u>
<b>Capital and reserves</b>			
Called up share capital	24	1,000	1,000
Hedging reserve		(223)	(118)
Other reserves		493	493
Profit and loss account		<u>49,064</u>	<u>54,802</u>
Shareholders' funds		<u>50,334</u>	<u>56,177</u>

**Brush Electrical Machines Limited**  
**(Registration number: 00111849)**  
**Balance Sheet as at 31 December 2015**

Approved by the Board on 22 September 2016 and signed on its behalf by:

A handwritten signature in black ink, consisting of a large loop followed by a horizontal stroke, positioned above a dotted line.

G E Barnes  
Director

**Brush Electrical Machines Limited**

**Statement of Changes in Equity for the Year Ended 31 December 2015**

	Share capital £ 000	Hedging reserve £ 000	Other reserves £ 000	Profit and loss account £ 000	Total £ 000
At 1 January 2014	1,000	452	493	83,511	85,456
Loss for the year	-	-	-	(26,909)	(26,909)
Other comprehensive income	-	(570)	-	(1,800)	(2,370)
Total comprehensive income	-	(570)	-	(28,709)	(29,279)
At 31 December 2014	1,000	(118)	493	54,802	56,177

	Share capital £ 000	Hedging reserve £ 000	Other reserves £ 000	Profit and loss account £ 000	Total £ 000
At 1 January 2015	1,000	(118)	493	54,802	56,177
Loss for the year	-	-	-	(26,734)	(26,734)
Other comprehensive income	-	(105)	-	20,996	20,891
Total comprehensive income	-	(105)	-	(5,738)	(5,843)
At 31 December 2015	1,000	(223)	493	49,064	50,334

## **Brush Electrical Machines Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2015**

#### **1 General information**

The Company is a private company limited by share capital incorporated in England & Wales under the Companies Act. The nature of the Company's operations and its principal activity are set out in the Strategic Report.

The address of its registered office is:

11th Floor  
The Colmore Building  
20 Colmore Circus Queensway  
Birmingham  
West Midlands  
B4 6AT

These financial statements were authorised for issue by the Board on 22 September 2016.

#### **2 Accounting policies**

##### **Summary of significant accounting policies and key accounting estimates**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied, unless otherwise stated.

##### **Basis of preparation**

The Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. Accordingly, these financial statements were prepared in accordance with FRS 101 (Financial Reporting Standard 101) 'Reduced Disclosure Framework' as issued by the Financial Reporting Council.

The financial statements have been prepared on the historical cost basis, except for the revaluation of financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services.



## **Brush Electrical Machines Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2015**

#### **2 Accounting policies (continued)**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

#### **Transition to FRS 101**

This is the first year that the Company has presented its financial statements under FRS 101 (Financial Reporting Standard 101) issued by the Financial Reporting Council. The following disclosures are required in the year of transition. The last financial statements under a previous GAAP (UK GAAP) were for the year ended 31 December 2014 and the date of transition to FRS 101 was therefore 1 January 2014.

Further information regarding the transition, including the impact on reserves is shown in note 30.

#### **Summary of disclosure exemptions**

As permitted by FRS 101 and where relevant, the Company has taken advantage of the disclosure exemptions available under that standard in relation to financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash-flow statement, standards not yet effective, impairment of assets and related party transactions. Where required, equivalent disclosures are given in the group accounts of Melrose Industries PLC, which are available to the public and can be obtained from 11th Floor, The Colmore Building, 20 Colmore Circus Queensway, Birmingham, West Midlands, B4 6AT.

#### **Going concern**

The financial statements have been prepared on a going concern basis.

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. The Strategic Report describes the Company's objectives, policies and processes for managing its principal risks, including liquidity risk. The Company's forecasts and projections, including consideration of the availability of finance, show that the Company should be able to continue to operate for the foreseeable future.

After making enquiries and considering the above facts, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

## **Brush Electrical Machines Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2015**

#### **2 Accounting policies (continued)**

##### **Exemption from preparing group accounts**

These financial statements are separate financial statements. The Company is exempt from the preparation of consolidated financial statements, because it is included in the group accounts of Melrose Industries PLC.

##### **Exceptional operating items**

Exceptional operating items are those items of a significant and non-recurring nature or those associated with significant restructuring programmes, acquisitions or disposals, which warrant separate additional disclosure in the financial statements in order to fully understand the underlying performance of the Company.

##### **Adoption of new and revised Standards**

The Company has adopted all mandatory standards, interpretations and amendments that have become effective with effect from 1 January 2015. None of the standards, interpretations and amendments that are effective for the first time have had a material effect on the financial statements.

##### **Revenue recognition**

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and provision of services in the ordinary course of the Company's activities. Revenue is shown net of sales/value added tax, returns, rebates and discounts.

The Company recognises revenue when:

The amount of revenue can be reliably measured; it is probable that future economic benefits will flow to the entity; and specific criteria have been met for each of the Company's activities.

##### **Finance income and costs policy**

###### **Finance income**

Interest income is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

###### **Finance costs**

Where financial liabilities are measured at amortised cost using the effective interest method, interest expense is recognised on an effective yield basis in profit or loss within finance costs.

##### **Foreign currency transactions and balances**

The financial statements are presented in pounds sterling, which is the currency of the primary economic environment in which the Company operates (its functional currency).

Transactions in currencies other than the functional currency 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. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for exchange differences on transactions entered into to hedge certain foreign currency risks.

## **Brush Electrical Machines Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2015**

#### **2 Accounting policies (continued)**

##### **Tax**

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

##### **Property, plant and equipment**

Property, plant and equipment is stated at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The cost of property, plant and equipment includes directly attributable incremental costs incurred in their acquisition and installation.

##### **Depreciation**

Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost or valuation, less estimated residual value, of each asset on a straight-line basis over its expected useful life. Residual value is calculated on prices prevailing at the date of acquisition or revaluation. Useful lives and residual values are reviewed at the end of every reporting period. Depreciation is provided as follows:

## **Brush Electrical Machines Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2015**

#### **2 Accounting policies (continued)**

<b>Asset class</b>	<b>Depreciation rate</b>
Plant and equipment	10 to 15 years

#### **Intangible assets**

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Internally-generated intangible assets - research and development expenditure

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

An internally-generated intangible asset arising from the development is recognised if, and only if, all of the following conditions have been demonstrated:

the technical feasibility of completing the intangible assets so that it will be available for use or sale;

the intention to complete the intangible asset and use or sell it;

the ability to use or sell the intangible asset;

how the intangible asset will generate probable future economic benefits;

the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible assets; and

the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in the profit and loss in the period in which it is incurred. Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

#### **Derecognition of intangible assets**

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

#### **Amortisation**

Amortisation is provided on intangible assets so as to write off the cost, less any estimated residual value, on a straight-line basis over their expected useful economic life as follows:

<b>Asset class</b>	<b>Amortisation rate</b>
Computer software	5 years or less

#### **Investments**

Investments in subsidiaries are stated at cost less provision for impairment. Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably).

## **Brush Electrical Machines Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2015**

#### **2 Accounting policies (continued)**

##### **Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and call deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

##### **Trade receivables**

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at the transaction price. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for the impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

##### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method.

The cost of finished goods and work in progress comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and costs to be incurred in marketing, selling and distribution. If inventory is impaired, the carrying amount is reduced to its selling price less costs to complete and sell; the impairment loss is recognised immediately in profit or loss. Provision is made for obsolete, slow-moving or defective items where appropriate.

##### **Trade payables**

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method.

##### **Borrowings**

All borrowings are initially recorded at the amount of proceeds received, net of transaction costs. Borrowings are subsequently carried at amortised cost, with the difference between the proceeds, net of transaction costs, and the amount due on redemption being recognised as a charge to the income statement over the period of the relevant borrowing.

Interest expense is recognised on the basis of the effective interest method and is included in finance costs.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

## **Brush Electrical Machines Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2015**

#### **2 Accounting policies (continued)**

##### **Provisions**

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

##### **Restructurings**

A restructuring provision is recognised when the Company has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

##### **Warranties**

Provisions for the expected cost of warranty obligations under local sale of goods legislation are recognised at the date of sale of the relevant products, at the Directors' best estimate of the expenditure required to settle the Company's obligation.

##### **Leases**

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. 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.

## **Brush Electrical Machines Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2015**

#### **2 Accounting policies (continued)**

##### **Impairment of non-financial assets**

At each balance sheet date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

##### **Share capital**

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

##### **Defined contribution pension obligation**

A defined contribution plan is a pension plan under which fixed contributions are paid into a separate entity and the Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans contributions are paid publicly or privately administered pension insurance plans on a mandatory or contractual basis. The contributions are recognised as an employee benefit expense when they are due. If contribution payments exceed the contribution due for service, the excess is recognised as an asset.

## **Brush Electrical Machines Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2015**

#### **2 Accounting policies (continued)**

##### **Defined benefit pension obligation**

Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date minus the fair value of plan assets. The defined benefit obligation is measured using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future payments by reference to market yields at the reporting date on high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses are charged or credited to other comprehensive income in the period in which they arise.

Past-service costs are recognised immediately in profit or loss.

##### **Financial assets and liabilities**

###### ***Classification***

Financial assets and financial liabilities are recognised in the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.



## **Brush Electrical Machines Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2015**

#### **2 Accounting policies (continued)**

##### ***Recognition and measurement***

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

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

##### **Effective interest method**

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

##### **Loans and receivables**

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

## **Brush Electrical Machines Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2015**

#### **2 Accounting policies (continued)**

##### ***Impairment***

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the differences between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

## **Brush Electrical Machines Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2015**

#### **2 Accounting policies (continued)**

##### **Financial liabilities**

###### ***Classification***

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

###### ***Recognition and measurement***

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

## **Brush Electrical Machines Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2015**

#### **2 Accounting policies (continued)**

##### **Derivatives and hedging**

###### **Derivative financial instruments**

The Company enters into a variety of derivative financial instruments to manage its exposure to risks.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Company designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges).

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

## **Brush Electrical Machines Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2015**

#### **2 Accounting policies (continued)**

##### **Hedge accounting**

The Company designates certain hedging instruments as either fair value hedges or cash flow hedges. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

##### **Fair value hedges**

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in the line of the income statement relating to the hedged item.

Hedge accounting is discontinued when the Company revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

##### **Cash flow hedge**

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the 'other gains and losses' line item.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the income statement as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Company revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income at that time is accumulated in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

## **Brush Electrical Machines Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2015**

#### **3 Critical accounting judgements and key sources of estimation uncertainty**

In the application of the Company's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements, including those involving key sources of estimation uncertainty, that the Directors have made in the process of applying the Company's accounting policies. These have the most significant effect on the amounts recognised in the financial statements or have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

##### **Impairment of non-current assets, including investments in subsidiaries**

Non-current assets are tested for impairment whenever events or circumstances indicate that their carrying amounts might be impaired. Such events and circumstances would include the effects of restructuring initiated by management.

Where such events and circumstances are identified, to determine whether non-current assets are impaired requires an estimation of the asset's recoverable amount. Management use their judgement in estimating the recoverable amount of each asset, which may be based upon the asset's value in use or its fair value less costs to sell. Where applicable, the value in use calculation requires management to estimate the future cash flows expected to arise from the asset and a suitable discount rate in order to calculate the net present value. Such calculations require judgement relating to the appropriate discount factors and long-term growth prevalent in a particular market as well as short and medium term business plans. Management draw upon experience as well as external resources in making these judgements.

##### **Provisions**

The quantification of certain liabilities within provisions have been estimated using the best information available. However, such liabilities depend on the actions of third parties and on the specific circumstances pertaining to each obligation, neither of which is controlled by the Company. Although provisions are reviewed on a regular basis and adjusted for management's best current estimates, the judgemental nature of these items means that future amounts settled may be different from those provided.

## Brush Electrical Machines Limited

### Notes to the Financial Statements for the Year Ended 31 December 2015

#### 3 Critical accounting judgements and key sources of estimation uncertainty (continued)

##### Retirement benefit obligations

Retirement benefits are accounted for under IAS 19 (revised): "Employee benefits". For defined benefit plans, obligations are measured at the discounted present value whilst plan assets are recorded at fair value. Because of changing market and economic conditions, the expenses and liabilities actually arising under the plans in the future may differ materially from the estimates made on the basis of these actuarial assumptions. Therefore, declining returns on equity markets and markets for fixed-income instruments could necessitate additional contributions to the plans in order to cover future pension obligations. Also, higher or lower withdrawal rates or longer or shorter life of participants may have an impact on the amount of pension income or expense recorded in the future.

The discount rate used to discount retirement benefit obligations to present value is derived from the yields of senior, high-quality corporate bonds at the Balance Sheet date. These generally include AA-rated securities. The discount rate is based on the market yield of a portfolio of bonds whose weighted residual maturities approximately correspond to the duration necessary to cover the entire benefit obligation.

Pension and other retirement benefits are inherently long-term and future experience may differ from the actuarial assumptions used to determine the net charge for retirement benefit obligations. Note 23 to these financial statements describes the principal discount rate, earnings increase and pension retirement benefit obligation assumptions that have been used to determine the net charge for retirement benefit obligations in accordance with IAS 19 (revised): "Employee benefits". The calculation of any charge relating to retirement benefit obligations is clearly dependent on the assumptions used, which reflects the exercise of judgement. The assumptions adopted are based on prior experience, market conditions and the advice of actuaries.

##### Taxation

The Company is subject to UK income tax. Management is required to exercise judgement in determining the Company's provision for income taxes. Management's judgement is required in estimating tax provisions where additional current tax may become payable in the future following the audit by the tax authorities of previously filed tax returns. Management's judgement may also be required as to whether a deferred tax asset should be recognised based on the availability of future taxable profits. While the Company aims to ensure that the estimates recorded are accurate, the actual amounts could be different from those expected.

#### 4 Revenue

The analysis of the Company's revenue for the year from continuing operations is as follows:

	2015 £ 000	2014 £ 000
Sale of goods	69,524	87,703
Rendering of services	7,935	28,685
Turnover	<u>77,459</u>	<u>116,388</u>
Interest receivable and similar income	1,008	448
Income from shares in group undertakings	<u>16,400</u>	<u>-</u>
	<u>17,408</u>	<u>448</u>
Total revenue as defined by IAS 18	<u>94,867</u>	<u>116,836</u>

## Brush Electrical Machines Limited

### Notes to the Financial Statements for the Year Ended 31 December 2015

#### 4 Revenue (continued)

The analysis of the Company's turnover for the year by geographical market is as follows:

	2015 £ 000	2014 £ 000
United Kingdom	11,445	12,878
Europe	21,337	29,672
North America	26,127	50,338
Asia	12,551	10,781
Rest of the world	5,999	12,719
	<u>77,459</u>	<u>116,388</u>

The analysis of the Company's turnover for the year by class of business is as follows:

	2015 £ 000	2014 £ 000
Energy	17,789	20,616
Utilities	18,099	47,084
Oil & gas	7,268	14,137
Industrials	7,625	5,866
Aftermarket	26,678	28,685
	<u>77,459</u>	<u>116,388</u>

#### 5 Exceptional operating items

Included within operating loss are the following items of a significant and non-recurring nature which warrant separate disclosure in the financial statements in order to fully understand the underlying performance of the Company.

	2015 £ 000	2014 £ 000
Impairment of investment in subsidiaries	(41,674)	(46,613)
Reorganisation costs	<u>(5,216)</u>	<u>-</u>
	<u>(46,890)</u>	<u>(46,613)</u>

During the year, a review of the carrying value of the Company's investments in subsidiaries identified impairments with a total value of £41,674,000. A similar review in 2014 identified impairments of £46,613,000.

A restructuring programme was announced during the year to realign the cost base of the Company to be in line with the reduced levels of revenue being generated by the business. The total costs expected to be incurred as a result of this restructure are £5,216,000.



## Brush Electrical Machines Limited

### Notes to the Financial Statements for the Year Ended 31 December 2015

#### 6 Operating loss

Arrived at after charging/(crediting)

	2015 £ 000	2014 £ 000
Depreciation expense	1,709	1,390
Amortisation expense	281	268
Impairment loss	41,674	46,613
Research and development spend	39	158
Foreign exchange losses/(gains)	1,055	(82)
Staff costs	30,028	33,016
Operating lease rentals	103	88
Cost of inventories recognised as expense	54,092	75,714
Write downs of inventory	178	-
	<u>178</u>	<u>-</u>

#### 7 Auditors' remuneration

	2015 £ 000	2014 £ 000
Audit of the financial statements	<u>73</u>	<u>72</u>

#### 8 Interest receivable and similar income

	2015 £ 000	2014 £ 000
Interest income on bank deposits	-	20
Interest on loans to Group undertakings	<u>1,008</u>	<u>428</u>
	<u>1,008</u>	<u>448</u>

#### 9 Interest payable and similar charges

	2015 £ 000	2014 £ 000
Interest on bank overdrafts and borrowings	242	51
Interest on loans from Group undertakings	532	579
Net interest cost on pensions	900	1,200
Preference share dividends	<u>1,522</u>	<u>1,521</u>
	<u>3,196</u>	<u>3,351</u>

## Brush Electrical Machines Limited

### Notes to the Financial Statements for the Year Ended 31 December 2015

#### 10 Staff costs

The aggregate payroll costs (including directors' remuneration) were as follows:

	2015 £ 000	2014 £ 000
Wages and salaries	25,918	28,542
Social security costs	2,684	2,910
Pension costs, defined contribution scheme	1,426	1,564
	<u>30,028</u>	<u>33,016</u>

The average number of persons employed by the Company (including directors) during the year, analysed by category was as follows:

	2015 No.	2014 No.
Production	520	618
Sales, marketing and distribution	62	70
Administration and support	124	122
	<u>706</u>	<u>810</u>

#### 11 Directors' remuneration

The Directors received no remuneration for their services to the Company during the year (year ended 31 December 2014: £nil). The Directors of the Company who served during the year were also Directors of a number of the companies within the Melrose Group and as such remuneration of directors is borne by a fellow company.

#### 12 Income tax

Tax charged/(credited) in the income statement

	2015 £ 000	2014 £ 000
<b>Current taxation</b>		
UK corporation tax	133	-
Total current income tax	133	-
<b>Deferred taxation</b>		
Arising from origination and reversal of temporary differences	161	684
Tax charge in the income statement	<u>294</u>	<u>684</u>

## Brush Electrical Machines Limited

### Notes to the Financial Statements for the Year Ended 31 December 2015

#### 12 Income tax (continued)

The tax on loss before tax for the year is higher than the standard rate of corporation tax in the UK (2014: higher than the standard rate of corporation tax in the UK) of 20.25% (2014: 21.5%).

The differences are reconciled below:

	2015 £ 000	2014 £ 000
Loss before tax	(26,440)	(26,225)
Corporation tax at standard rate	(5,354)	(5,638)
Adjustment for prior periods	56	184
Non-taxable income	(3,321)	-
Expenses not deductible in determining taxable profit	8,771	10,380
Group relief at nil consideration	-	(4,242)
Withholding taxes	133	-
Effect of rate differences on deferred tax recognition	9	-
Total tax charge	294	684
<b>Tax recognised in other comprehensive income</b>		

In addition to the amounts recognised in the income statement, the following amounts relating to tax have been recognised in other comprehensive income:

	2015 £ 000	2014 £ 000
<b>Deferred tax</b>		
Financial instruments treated as cash flow hedges	(26)	(143)
Retirement benefit obligations	5,249	(450)
	5,223	(593)

Changes to the main rate of UK corporation tax were announced in the Finance (No. 2) Act 2015 which was substantively enacted in 2015. The UK corporation tax rate is set to reduce to 19% from 1 April 2017 and reduce further to 18% from 1 April 2020. No adjustment has been made in these financial statements for the estimated reduction of deferred tax liabilities of £100,000.

In the March 2016 Budget, the government announced a reduction in the main rate of corporation tax for the financial year beginning 1 April 2020 to 17%. This reduction was not substantively enacted at the balance sheet date and so is not reflected in these financial statements. However the expected impact on this would be a further reduction in the recognised deferred tax liability of £62,000.

## Brush Electrical Machines Limited

### Notes to the Financial Statements for the Year Ended 31 December 2015

#### 13 Intangible assets

	Computer software £ 000	Total £ 000
<b>Cost or valuation</b>		
At 1 January 2015	2,526	2,526
Additions	106	106
At 31 December 2015	<u>2,632</u>	<u>2,632</u>
<b>Amortisation</b>		
At 1 January 2015	1,444	1,444
Amortisation charge	281	281
At 31 December 2015	<u>1,725</u>	<u>1,725</u>
<b>Carrying amount</b>		
At 31 December 2015	<u>907</u>	<u>907</u>
At 31 December 2014	<u>1,082</u>	<u>1,082</u>

#### 14 Property, plant and equipment

	Plant and equipment £ 000	Total £ 000
<b>Cost or valuation</b>		
At 1 January 2015	51,214	51,214
Additions	1,416	1,416
Disposals	(151)	(151)
At 31 December 2015	<u>52,479</u>	<u>52,479</u>
<b>Depreciation</b>		
At 1 January 2015	36,437	36,437
Charge for the year	1,709	1,709
Eliminated on disposal	(40)	(40)
At 31 December 2015	<u>38,106</u>	<u>38,106</u>
<b>Carrying amount</b>		
At 31 December 2015	<u>14,373</u>	<u>14,373</u>
At 31 December 2014	<u>14,777</u>	<u>14,777</u>

## Brush Electrical Machines Limited

### Notes to the Financial Statements for the Year Ended 31 December 2015

#### 15 Investments

Subsidiaries	£ 000
<b>Cost or valuation</b>	
At 1 January 2014	442,897
At 31 December 2014	442,897
At 1 January 2015	442,897
At 31 December 2015	442,897
<b>Provision for impairment</b>	
Provision created	46,613
At 31 December 2014	46,613
At 1 January 2015	46,613
Provision created	41,674
At 31 December 2015	88,287
<b>Carrying amount</b>	
At 31 December 2015	354,610
At 31 December 2014	396,284
At 1 January 2014	442,897

A review of the carrying value of investments during the year identified impairments totalling £41,674,000.

Details of the subsidiaries as at 31 December 2015 and 31 December 2014 are as follows:

Name of subsidiary	Principal activity	Country of incorporation and principal place of business	Proportion of ownership interest and voting rights held	
			2015	2014
Brush Scheme Trustees Limited*	Dormant	United Kingdom	100%	100%
Brush SEM s.r.o.*	Engineering company	Czech Republic	100%	100%
Brush HMA B.V.*	Engineering company	Netherlands	100%	100%
Brush Japan KK*	Engineering company	Japan	100%	100%
Harrington Generators International Limited*	Engineering company	United Kingdom	100%	100%
Brush Transformers Limited*	Engineering company	United Kingdom	100%	100%

## Brush Electrical Machines Limited

### Notes to the Financial Statements for the Year Ended 31 December 2015

#### 15 Investments (continued)

Brush Aftermarket North America Inc*	Holding company	USA	100%	100%
Brush Canada Services Inc/Services Brush Canada Inc*	Engineering company	Canada	100%	100%
Hawker Siddeley Switchgear Limited*	Engineering company	United Kingdom	100%	100%
Brush Electrical Engineering Company Limited*	Dormant	United Kingdom	100%	100%
Generator and Motor Services of Pennsylvania LLC	Engineering company	USA	100%	100%
Brush Electrical Machines (Changshu) Co Limited	Engineering company	China	100%	100%
Brush Turbogenerators Inc	Engineering company	USA	100%	100%
Brush Switchgear Limited	Dormant	United Kingdom	100%	100%
Bristol Meci Australasia Pty Limited	Holding company	Australia	100%	100%
Hawker Siddeley Switchgear Pty Limited	Engineering company	Australia	100%	100%
Mediterranean Power Electric Company Limited	Engineering company	Malta	26%	26%

\* owned directly by the Company

All holdings relate to Ordinary Shares unless otherwise stated.

#### 16 Inventories

	2015 £ 000	2014 £ 000
Raw materials and consumables	2,879	2,794
Work in progress	8,506	7,526
Finished goods and goods for resale	5,517	697
	<u>16,902</u>	<u>11,017</u>

## Brush Electrical Machines Limited

### Notes to the Financial Statements for the Year Ended 31 December 2015

#### 17 Trade and other receivables

	2015 £ 000	2014 £ 000
Trade receivables	18,058	20,613
Provision for impairment of trade receivables	(349)	(299)
Net trade receivables	17,709	20,314
Receivables from Group undertakings	49,855	36,919
Prepayments and accrued income	1,463	1,708
Other receivables	101	974
Total trade and other receivables	<u>69,128</u>	<u>59,915</u>

#### 18 Trade and other payables - amounts falling due within one year

	2015 £ 000	2014 £ 000
Trade payables	9,351	11,646
Accruals and deferred income	2,777	2,796
Amounts due to Group undertakings	93,835	76,023
Social security and other taxes	-	886
Payments on account	1,346	2,233
Other payables	49	470
	<u>107,358</u>	<u>94,054</u>

#### 19 Trade and other payables - amounts falling due after more than one year

	2015 £ 000	2014 £ 000
Preference shares	<u>304,308</u>	<u>304,308</u>

Further details regarding preference shares are set out in note 24.

#### 20 Loans and borrowings

	2015 £ 000	2014 £ 000
Loans and borrowings - amounts falling due within one year		
Bank overdrafts	<u>-</u>	<u>4,626</u>

## Brush Electrical Machines Limited

### Notes to the Financial Statements for the Year Ended 31 December 2015

#### 21 Provisions

	Warranties £ 000	Restructuring £ 000	Total £ 000
At 1 January 2015	747	645	1,392
Additional provisions charged	152	5,216	5,368
Provisions utilised	(497)	(5,561)	(6,058)
At 31 December 2015	<u>402</u>	<u>300</u>	<u>702</u>
Current liabilities	<u>402</u>	<u>300</u>	<u>702</u>

The provision for product warranties relates to expected warranty claims on products sold and is expected to be utilised within three years of the balance sheet date.

The provision for restructuring relates to reorganisation plans which have been announced in order to realign the cost base of the business with the reduced level of revenue which is being experienced due to the current difficult end market conditions. The majority of the provisions created during the year have also been utilised. The remaining amounts outstanding in this provision are expected to be utilised within one year of the balance sheet date.

#### 22 Deferred tax

Deferred tax assets and liabilities are offset where the Company has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	Assets £ 000	Liabilities £ 000	Net £ 000
<b>2015</b>			
Accelerated tax depreciation	-	(1,255)	(1,255)
Other temporary differences	-	268	268
Tax losses	-	686	686
Retirement benefit obligations	-	(273)	(273)
	<u>-</u>	<u>(574)</u>	<u>(574)</u>
<b>2014</b>			
Accelerated tax depreciation	(1,208)	-	(1,208)
Other temporary differences	338	-	338
Retirement benefit obligations	5,680	-	5,680
	<u>4,810</u>	<u>-</u>	<u>4,810</u>



## Brush Electrical Machines Limited

### Notes to the Financial Statements for the Year Ended 31 December 2015

#### 22 Deferred tax (continued)

	Accelerated tax depreciation £ 000	Other temporary differences £ 000	Retirement benefit obligations £ 000	Total £ 000
At 1 January 2014	(1,024)	45	5,880	4,901
Recognised in income	(184)	150	(650)	(684)
Recognised in equity	-	143	450	593
At 31 December 2014	<u>(1,208)</u>	<u>338</u>	<u>5,680</u>	<u>4,810</u>
	Accelerated tax depreciation £ 000	Other temporary differences £ 000	Tax losses £ 000	Retirement benefit obligations £ 000
At 1 January 2015	(1,208)	338	-	5,680
Recognised in income	(47)	(96)	686	(704)
Recognised in equity	-	26	-	(5,249)
At 31 December 2015	<u>(1,255)</u>	<u>268</u>	<u>686</u>	<u>(273)</u>
				<b>Total £ 000</b>
At 1 January 2015				4,810
Recognised in income				(161)
Recognised in equity				<u>(5,223)</u>
At 31 December 2015				<u>(574)</u>

#### 23 Pension schemes

##### Defined contribution pension scheme

The Company operates a defined contribution pension scheme. The assets of the schemes are held separately from those of the Company in funds under the control of trustees. The pension cost charge for the year represents contributions payable by the Company to the scheme and amounted to £1,426,000 (2014: £1,564,000).

There were no amounts prepaid or payable to the scheme at the end of the current year or the prior year.

##### Defined benefit pension schemes

##### Brush Group (2013) Pension Plan

The Company sponsors a defined benefit plan for qualifying employees. The plan is closed to new members and the accrual of future benefits for existing members.

## Brush Electrical Machines Limited

### Notes to the Financial Statements for the Year Ended 31 December 2015

#### 23 Pension schemes (continued)

The funded defined benefit plan is administered by a separate fund that is legally separated from the Company. The trustees of the fund are required by law to act in the interest of the fund and of all relevant stakeholders in the plan. The trustees of the pension fund are responsible for the investment policy with regard to the assets of the fund.

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

The most recent full actuarial valuation of the scheme was performed at 31 December 2014. The full actuarial valuation has been updated at 31 December 2015 by independent actuaries.

Contributions payable to the pension scheme at the end of the year are £Nil (2014: £Nil).

The expected contributions to the plan for the next reporting period are £8,800,000.

Following agreement with the Brush Group (2013) Pension Plan Trustees, the Group has contributed £8,800,000 early to the Brush UK Pension Plan in the year ending 31 December 2016. No contributions are expected to be made in the year ending 31 December 2017.

#### *Reconciliation of scheme assets and liabilities to assets and liabilities recognised*

The amounts recognised in the statement of financial position are as follows:

	2015 £ 000	2014 £ 000
Fair value of scheme assets	197,112	197,400
Present value of scheme liabilities	(195,748)	(225,800)
Defined benefit pension scheme surplus/(deficit)	<u>1,364</u>	<u>(28,400)</u>

#### *Scheme assets*

Changes in the fair value of scheme assets are as follows:

	2015 £ 000	2014 £ 000
Fair value at start of year	197,400	167,000
Interest income	6,900	7,400
Return on plan assets, excluding amounts included in interest income	(5,112)	21,850
Employer contributions	4,988	4,850
Benefits paid	(6,495)	(3,300)
Administrative expenses paid	(569)	(400)
Fair value at end of year	<u>197,112</u>	<u>197,400</u>

#### *Analysis of assets*

The major categories of scheme assets are as follows:

## Brush Electrical Machines Limited

### Notes to the Financial Statements for the Year Ended 31 December 2015

#### 23 Pension schemes (continued)

	2015 £ 000	2014 £ 000
Cash and cash equivalents	1,667	700
Equity instruments	64,824	62,300
Debt instruments	130,621	134,400
	<u>197,112</u>	<u>197,400</u>

The assets are well diversified and the majority of plan assets have quoted prices in active markets. All government bonds are issued by reputable governments and are generally AA rated or higher. Interest rate and inflation rate swaps are also employed to complement the role of fixed and index-linked bond holdings for liability risk management.

The trustees continually review whether the chosen investment strategy is appropriate with a view to providing the pension benefits and to ensure appropriate matching of risk and return profiles. The main strategic policies include maintaining an appropriate asset mix, managing interest rate sensitivity and maintaining an appropriate equity buffer. Investment results are regularly reviewed.

The pension scheme has not invested in any of the company's own financial instruments or in properties or other assets used by the company.

#### *Actual return on scheme's assets*

	2015 £ 000	2014 £ 000
Actual return on scheme assets	<u>1,788</u>	<u>29,250</u>

#### *Scheme liabilities*

Changes in the present value of scheme liabilities are as follows:

	2015 £ 000	2014 £ 000
Present value at start of year	225,800	196,400
Actuarial gains and losses arising from changes in demographic assumptions	(15,162)	(700)
Actuarial gains and losses arising from changes in financial assumptions	(11,668)	28,700
Actuarial gains and losses arising from experience adjustments	(4,527)	(3,900)
Interest cost	7,800	8,600
Benefits paid	<u>(6,495)</u>	<u>(3,300)</u>
Present value at end of year	<u>195,748</u>	<u>225,800</u>

#### *Principal actuarial assumptions*

The significant actuarial assumptions used to determine the present value of the defined benefit obligation at the statement of financial position date are as follows:

## Brush Electrical Machines Limited

### Notes to the Financial Statements for the Year Ended 31 December 2015

#### 23 Pension schemes (continued)

	2015 %	2014 %
Discount rate	3.70	3.50
Future pension increases	3.00	3.00
Inflation	3.00	3.10

#### *Post retirement mortality assumptions*

	2015 Years	2014 Years
Current UK pensioners at retirement age - male	20.30	21.10
Current UK pensioners at retirement age - female	22.30	23.30
Future UK pensioners at retirement age - male	22.00	22.80
Future UK pensioners at retirement age - female	23.90	24.90

Mortality assumptions for the most significant plan in the Group, the FKI UK plan, as at 31 December 2015 are based on the Self Administered Pension Scheme ("SAPS") "S1" base tables with scaling factors of 110% and 105% for deferred members and pensioners respectively, which reflect the results of a mortality analysis carried out on the plan's membership. Future improvements are in line with the Continuous Mortality Investigation ("CMI") improvement model with a long-term rate of improvement of 1.25% p.a. for both males and females.

#### *Amounts recognised in the income statement*

	2015 £ 000	2014 £ 000
<b>Amounts recognised in operating profit</b>		
Administrative expenses paid	569	400
<b>Amounts recognised in finance income or costs</b>		
Net interest	900	1,200
Total recognised in the income statement	1,469	1,600

#### *Amounts taken to the Statement of Comprehensive Income*

	2015 £ 000	2014 £ 000
Actuarial gains and losses arising from changes in demographic assumptions	15,162	700
Actuarial gains and losses arising from changes in financial assumptions	11,668	(28,700)
Actuarial gains and losses arising from experience adjustments	4,527	3,900
Return on plan assets, excluding amounts included in interest income	(5,112)	21,850
Amounts recognised in the Statement of Comprehensive Income	26,245	(2,250)

## Brush Electrical Machines Limited

### Notes to the Financial Statements for the Year Ended 31 December 2015

#### 23 Pension schemes (continued)

##### Sensitivity analysis

A sensitivity analysis for the principal assumptions used to measure scheme liabilities is set out below:

	+ 0.1% £ 000	2015 0.0% £ 000	- 0.1% £ 000
<b>Adjustment to discount rate</b>			
Present value of total obligation	(3,500)	-	3,600
	+ 0.1% £ 000	2015 0.0% £ 000	- 0.1% £ 000
<b>Adjustment to rate of inflation</b>			
Present value of total obligation	3,000	-	(1,300)
	+ 1 Year £ 000	2015 None £ 000	- 1 Year £ 000
<b>Adjustment to mortality age rating assumption</b>			
Present value of total obligation	5,400	-	(5,200)

## Brush Electrical Machines Limited

### Notes to the Financial Statements for the Year Ended 31 December 2015

#### 24 Share capital

##### Allotted, called up and fully paid shares

	2015		2014	
	Number	£ 000	Number	£ 000
Ordinary shares of £1 each	<u>1,000,000</u>	<u>1,000</u>	<u>1,000,000</u>	<u>1,000</u>

In addition to ordinary shares, the Company has issued one preference share of type 'A' and one preference share of type 'B' to fellow group undertakings for a total consideration of £304.3 million (note 19). These preference shares are presented as a liability in these financial statements.

Entitlement to dividends: - 'A' and 'B' preference shareholders are entitled to a cumulative cash dividend which accrues on a daily basis at an annual rate equal to the base rate of Barclays Bank plc in force from time to time on the amount paid up on each share (inclusive of share premium). Subject thereto, all dividends and distributions shall be paid to the holders of the 'A' preference share, 'B' preference share and ordinary shares pro rata according to the nominal value thereof.

Voting rights: - The holders of the 'A' and 'B' preference shares are entitled to receive notice of and to attend all meetings of the company but shall not be entitled to vote thereat.

Entitlement on winding up: - On a return of assets on liquidation, reduction of capital or otherwise the surplus assets of the company remaining after payment of its debts and liabilities shall be applied first in payment to the holders of 'A' preference shares and 'B' preference shares, as if the same constituted a single class, of an amount equal to the amount paid up thereon (including any premium) together with a sum equal to any arrears of the dividends payable thereon calculated down to the date of the return of capital; second in payment to the holders of the ordinary shares of an amount equal to the nominal value thereof; and third in payment of any surplus to the holders of the 'A' preference share, the 'B' preference share and the ordinary shares pro rata according to the nominal value thereof.

#### 25 Reserves

The changes to each component of equity resulting from items of other comprehensive income for the current year were as follows:

	Hedging reserve £ 000	Profit and loss account £ 000	Total £ 000
Loss on cash flow hedges	(105)	-	(105)
Remeasurements of post employment benefit obligations	-	20,996	20,996
	<u>(105)</u>	<u>20,996</u>	<u>20,891</u>

The changes to each component of equity resulting from items of other comprehensive income for the prior year were as follows:

## Brush Electrical Machines Limited

### Notes to the Financial Statements for the Year Ended 31 December 2015

#### 25 Reserves (continued)

	Hedging reserve £ 000	Profit and loss account £ 000	Total £ 000
Loss on cash flow hedges	(570)	-	(570)
Remeasurements of post employment benefit obligations	-	(1,800)	(1,800)
	<u>(570)</u>	<u>(1,800)</u>	<u>(2,370)</u>

#### Hedging reserve

The hedging reserve represents the cumulative amount of gains and losses on hedging instruments deemed effective in cash flow hedges. The cumulative deferred gain or loss on the hedging instrument is recognised in profit or loss only when the hedged transaction impacts the profit or loss, or is included as a basis adjustment to the non-financial hedged item, consistent with the applicable accounting policy.

#### 26 Obligations under leases and hire purchase contracts

##### Operating leases

The total future value of minimum lease payments is as follows:

	2015 £ 000	2014 £ 000
Within one year	25	4
In two to five years	<u>10</u>	<u>80</u>
	<u>35</u>	<u>84</u>

The amount of non-cancellable operating lease payments recognised as an expense during the year was £103,000 (2014: £88,000)

#### 27 Commitments

##### Capital commitments

Capital commitments are as follows:

	2015 £ 000	2014 £ 000
Contracted for additions to property, plant & equipment	96	862
Contracted for additions to intangible assets	<u>14</u>	<u>-</u>
	<u>110</u>	<u>862</u>

## Brush Electrical Machines Limited

### Notes to the Financial Statements for the Year Ended 31 December 2015

#### 28 Financial instruments

##### Financial instruments recognised at fair value in the Balance Sheet

The following table sets out the Company's derivative financial instruments that are measured at fair value:

2015	Assets	Liabilities	Net
Derivative financial instruments	£ 000	£ 000	£ 000
Foreign currency forward contracts	113	(821)	(708)

The maturity of derivative financial instruments is as follows:

2015	Assets	Liabilities	Net
Derivative financial instruments	£ 000	£ 000	£ 000
Within one year	113	(821)	(708)

2014	Assets	Liabilities	Net
Derivative financial instruments	£ 000	£ 000	£ 000
Foreign currency forward contracts	-	(909)	(909)

The maturity of derivative financial instruments is as follows:

2014	Assets	Liabilities	Net
Derivative financial instruments	£ 000	£ 000	£ 000
Within one year	-	(909)	(909)

##### Valuation techniques and assumptions applied for the purposes of measuring fair value

The fair values of financial assets and financial liabilities are determined as follows:

The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).

The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.



## **Brush Electrical Machines Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2015**

#### **28 Financial instruments (continued)**

##### **Derivatives**

The Company enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risk, including foreign exchange forward contracts.

It is the policy of the Company to enter into forward foreign exchange contracts to cover specific foreign currency payments and receipts for material contracts. The Company also enters into forward foreign exchange contracts to manage the risk associated with anticipated sales and purchase transactions out to 12 months within 60 percent to 80 percent of the exposure generated. Basis adjustments are made to the carrying amounts of non-financial hedged items when the anticipated sale or purchase transaction takes place.

#### **29 Controlling party**

The Company's immediate parent company is Brush Holdings Limited, a company incorporated in England & Wales.

The ultimate parent company and controlling party is Melrose Industries PLC, a company incorporated in England & Wales.

The parent of the smallest and largest group in which these financial statements are consolidated is Melrose Industries PLC, incorporated in England & Wales.

Consolidated financial statements are available from:

11th Floor, The Colmore Building, 20 Colmore Circus Queensway, Birmingham, West Midlands, B4 6AT.

## **Brush Electrical Machines Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2015**

#### **30 Transition to FRS 101**

This is the first year that the Company has presented its financial statements under FRS 101 (Financial Reporting Standard 101) issued by the Financial Reporting Council. The following disclosures are required in the year of transition. The last financial statements under a previous GAAP (UK GAAP) were for the year ended 31 December 2014 and the date of transition to FRS 101 was therefore 1 January 2014.

The transition from UK GAAP to FRS 101 has resulted in changes to the method in which charges in relation to retirement benefit obligations are recognised in the Profit and Loss Account, the recognition of derivative instruments which were not previously recognised under UK GAAP and the reclassification of Computer Software from property, plant and equipment to Intangible assets.

Pension plan administration expenses, previously treated as actuarial movements in the Statement of Total Recognised Gains and Losses are now treated as administration costs in the Profit and Loss Account, resulting in additional administrative expenses of £400,000. Under UK GAAP the finance income in respect of retirement benefit plan assets was calculated by applying the expected rate of return to the plan assets, however, in accordance with FRS 101 the interest income on plan assets is instead calculated by using the same discount rate as that applied to plan liabilities. This has resulted in an additional finance costs of £1,200,000.

The transition to FRS 101 has also resulted in an amendment to the presentation of deferred tax in respect of retirement benefit obligations. Under UK GAAP the corresponding deferred tax asset was offset against the retirement obligation, whereas under FRS 101 both amounts are shown gross. The amounts reclassified from pension obligations to deferred tax assets were £5,880,000 at 1 January 2014 and £5,680,000 at 31 December 2014. In addition, £812,000 of deferred tax liabilities at 1 January 2014 and £1,052,000 of deferred tax liabilities at 31 December 2014 have been reclassified from provisions into deferred tax.

The transition to FRS 101 has resulted in the recognition of derivative financial instruments which were previously not recognised under UK GAAP. The effect of this was to recognise additional assets of £837,000 at 1 January 2014 and liabilities of £909,000 at 31 December 2014. Deferred tax recognised in respect of financial instruments designated as hedging instruments amounted to a liability of £167,000 at 1 January 2014 and an asset of £182,000 at 31 December 2014. The impact on the income statement for the year ended 31 December 2014 of this was to increase administrative expenses by £1,033,000 and to reduce the tax charge by £526,000.

Computer software that was previously classified as property, plant and equipment was reclassified to intangible assets. The amounts reclassified were £1,064,000 at 1 January 2014 and £1,082,000 at 31 December 2014.

## Brush Electrical Machines Limited

### Notes to the Financial Statements for the Year Ended 31 December 2015

#### 30 Transition to FRS 101 (continued)

##### Balance sheet at 1 January 2014

	As originally reported £ 000	Reclassification £ 000	Remeasurement £ 000	As restated £ 000
<b>Fixed assets</b>				
Intangible assets	-	1,064	-	1,064
Tangible fixed assets	14,296	(1,064)	-	13,232
Investments	442,897	-	-	442,897
Deferred tax assets	-	5,068	(167)	4,901
	<u>457,193</u>	<u>5,068</u>	<u>(167)</u>	<u>462,094</u>
<b>Current assets</b>				
Stocks	14,453	-	-	14,453
Debtors	43,494	-	-	43,494
Derivative financial instruments	-	-	837	837
Cash at bank and in hand	27,202	-	-	27,202
	<u>85,149</u>	<u>-</u>	<u>837</u>	<u>85,986</u>
Trade and other payables	(127,952)	-	-	(127,952)
Net current assets/(liabilities)	<u>(42,803)</u>	<u>-</u>	<u>837</u>	<u>(41,966)</u>
Total assets less current liabilities	414,390	5,068	670	420,128
Creditors: Amounts falling due after more than one year	(304,308)	-	-	(304,308)
Deferred tax liabilities	-	-	-	-
Provisions for liabilities	(1,776)	812	-	(964)
Net assets/(liabilities) excluding pension asset/(liability)	108,306	5,880	670	114,856
Net pension asset/(liability)	(23,520)	(5,880)	-	(29,400)
Net assets/(liabilities)	<u>84,786</u>	<u>-</u>	<u>670</u>	<u>85,456</u>
<b>Capital and reserves</b>				
Share capital	1,000	-	-	1,000
Hedging reserve	-	-	452	452
Other reserves	493	-	-	493
Profit and loss account	83,293	-	218	83,511
Shareholders' funds/(deficit)	<u>84,786</u>	<u>-</u>	<u>670</u>	<u>85,456</u>

## Brush Electrical Machines Limited

### Notes to the Financial Statements for the Year Ended 31 December 2015

#### 30 Transition to FRS 101 (continued)

##### Balance sheet at 31 December 2014

	As originally reported £ 000	Reclassification £ 000	Remeasurement £ 000	As restated £ 000
<b>Fixed assets</b>				
Intangible assets	-	1,082	-	1,082
Tangible fixed assets	15,859	(1,082)	-	14,777
Investments	396,284	-	-	396,284
Deferred tax assets	-	4,628	182	4,810
	<u>412,143</u>	<u>4,628</u>	<u>182</u>	<u>416,953</u>
<b>Current assets</b>				
Stocks	11,017	-	-	11,017
Debtors	59,915	-	-	59,915
Cash at bank and in hand	1,981	-	-	1,981
	<u>72,913</u>	<u>-</u>	<u>-</u>	<u>72,913</u>
Trade and other payables	(98,680)	4,626	-	(94,054)
Loans and borrowings	-	(4,626)	-	(4,626)
Derivative financial liabilities	-	-	(909)	(909)
	<u>(25,767)</u>	<u>-</u>	<u>(909)</u>	<u>(26,676)</u>
Net current assets/(liabilities)				
	<u>(25,767)</u>	<u>-</u>	<u>(909)</u>	<u>(26,676)</u>
Total assets less current liabilities	386,376	4,628	(727)	390,277
Creditors: Amounts falling due after more than one year	(304,308)	-	-	(304,308)
Deferred tax liabilities	-	-	-	-
Provisions for liabilities	(2,444)	1,052	-	(1,392)
	<u>(2,444)</u>	<u>1,052</u>	<u>-</u>	<u>(1,392)</u>
Net assets/(liabilities) excluding pension asset/(liability)	79,624	5,680	(727)	84,577
Net pension asset/(liability)	(22,720)	(5,680)	-	(28,400)
	<u>(22,720)</u>	<u>(5,680)</u>	<u>-</u>	<u>(28,400)</u>
Net assets/(liabilities)	<u>56,904</u>	<u>-</u>	<u>(727)</u>	<u>56,177</u>
<b>Capital and reserves</b>				
Share capital	1,000	-	-	1,000
Hedging reserve	-	-	(118)	(118)
Other reserves	493	-	-	493
Profit and loss account	55,411	-	(609)	54,802
	<u>56,904</u>	<u>-</u>	<u>(609)</u>	<u>56,295</u>
Shareholders' funds/(deficit)	<u>56,904</u>	<u>-</u>	<u>(727)</u>	<u>56,177</u>

## Brush Electrical Machines Limited

### Notes to the Financial Statements for the Year Ended 31 December 2015

#### 30 Transition to FRS 101 (continued)

##### Profit and loss account for the year ended 31 December 2014

	As originally reported £ 000	Remeasurement £ 000	As restated £ 000
Turnover	116,388	-	116,388
Cost of sales	<u>(75,714)</u>	<u>-</u>	<u>(75,714)</u>
Gross profit/(loss)	40,674	-	40,674
Distribution costs	(8,349)	-	(8,349)
Administrative expenses	(7,601)	(1,433)	(9,034)
Other operating income	<u>(46,613)</u>	<u>-</u>	<u>(46,613)</u>
Operating profit/(loss)	<u>(21,889)</u>	<u>(1,433)</u>	<u>(23,322)</u>
Other interest receivable and similar income	448	-	448
Interest payable and similar charges	<u>(2,151)</u>	<u>(1,200)</u>	<u>(3,351)</u>
	<u>(1,703)</u>	<u>(1,200)</u>	<u>(2,903)</u>
Profit/(loss) before tax	(23,592)	(2,633)	(26,225)
Tax on profit on ordinary activities	<u>(1,210)</u>	<u>526</u>	<u>(684)</u>
Profit/(loss) for the financial year	<u><u>(24,802)</u></u>	<u><u>(2,107)</u></u>	<u><u>(26,909)</u></u>