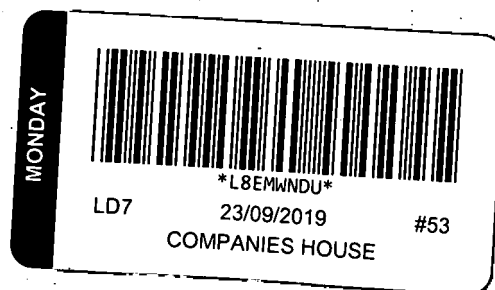


Registration number: 00111849

Brush Electrical Machines Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2018



Brush Electrical Machines Limited

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Brush Electrical Machines Limited

Company Information

Directors	G E Barnes
	C D Abbott
	J C F Crawford
	G D Morgan
	M J Richards
Company secretary	B P Hewitson
Registered office	11th Floor.
	The Colmore Building
	20 Colmore Circus Queensway
	Birmingham
	West Midlands
Auditor	B4 6AT
	Deloitte LLP
	Statutory Auditor
	Cambridge
	United Kingdom

Brush Electrical Machines Limited

Strategic Report for the Year Ended 31 December 2018

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

Principal activity

The principal activity of Brush Electrical Machines Limited (hereafter referred to as "The Company") is that of an engineering company specialising in the manufacture and sale of electrical machines.

Fair review of the business

Revenue for the year ended 31 December 2018 was £35,048,000 (year ended 31 December 2017: £57,877,000). The operating loss for the year ended 31 December 2018 was £171,863,000 (year ended 31 December 2017: loss of £164,870,000). The retained loss for the year ended 31 December 2018 was £159,295,000 (year ended 31 December 2017: loss of £138,669,000).

The Company considers its key performance indicators to be Revenue, Operating Profits, and the conversion of operating profits to cash.

Revenue decreased during the year by 39% (year ended 31 December 2017: 19% decrease). This is a result of the significant decline in traditional power markets in recent years, and the Company's subsequent decision to cease generator manufacturing at the Loughborough site, with all future generator manufacturing to be undertaken at the Pilzen site of the 100% owned subsidiary Brush SEM s.r.o. in the Czech Republic.

Operating profit, excluding the impact of operating exceptional expenses and foreign exchange gains and losses, decreased during the year by 285% (year ended 31 December 2017: 51% decrease). This decline is a result of the reduction in revenue and the subsequent under recovery of overheads prior to a reduction in the cost base.

Reorganisation expenses of £16,680,000 have been recognised during the year (year ended 31 December 2017: £3,106,000). These relate primarily to payroll, legal, and site decommissioning costs that have been incurred in the process of transferring the Generator manufacturing to Brush SEM s.r.o. In addition, a review of the carrying value of the Company's investments during the year identified impairments totalling £146,900,000 (year ended 31 December 2017: £121,393,000), and a review of the Company's loan receivables identified impairments of £2,999,000 (year ended 31 December 2017: £26,627,000).

In response to the declining market, the Company has recognised the requirement to adapt the business in line with the realities of today's market. However, as the Aftermarket business remains stable, 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 Economic and Political; Loss of Key Management; Legal, Regulatory and Environmental; Information Security and Cyber Threat, in line with those of Melrose Industries PLC as disclosed in the Strategic Report of the 2018 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 2018

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.

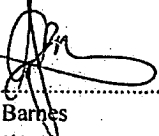
Going concern

The Directors have reviewed the Company's forecasts and projections, including consideration of the availability of finance, which show that the Company should be able to continue to operate for the foreseeable future. The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence thus they continue to adopt the going concern basis in preparing the annual financial statements.

The Directors have obtained a written confirmation from a parent company, Melrose PLC, stating that they will provide financial support to the Company for at least a period of 12 months from the date of this annual report providing that the Company remains under the ownership of the Melrose Group.

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 20 September 2019 and signed on its behalf by:



.....
G E Barnes
Director

Brush Electrical Machines Limited

Directors' Report for the Year Ended 31 December 2018

The Directors present their report and the audited financial statements for the year ended 31 December 2018. 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 and up to the date of signing the financial statements were as follows:

G E Barnes

C D Abbott (appointed 6 August 2018)

J C F Crawford (appointed 21 June 2018)

M O Daly (appointed 6 August 2018 and resigned 27 February 2019)

G P Martin (resigned 21 June 2018)

G D Morgan

A G Peart (resigned 31 May 2018)

S A Peckham (resigned 21 June 2018)

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, apart from M Daly, 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 2018 (year ended 31 December 2017: £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 £401,000 during the year (year ended 31 December 2017: £497,000).

Brush Electrical Machines Limited

Directors' Report for the Year Ended 31 December 2018

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.

Disclosure of information to the auditor

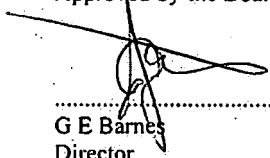
Each Director has taken steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information. The Directors confirm that there is no relevant information that they know of and of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

Reappointment of auditors

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

Approved by the Board on 20 September 2019 and signed on its behalf by:



.....
G E Barnes
Director

Brush Electrical Machines Limited

Directors' Responsibilities Statement

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 Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), 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

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 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Brush Electrical Machines Limited for the year ended 31 December 2018, set out on pages 10 to 49, which comprise:

- the income statement;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes (1 to 30).

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including the Financial Reporting Standards 101 "reduced disclosure framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

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

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

Conclusions relating to going concern

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

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

We have nothing to report in respect of these matters.

Brush Electrical Machines Limited

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

Other information

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

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

We have nothing to report in respect of these matters.

Responsibilities of Directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Brush Electrical Machines Limited

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

Opinions on other matters prescribed by the Companies Act 2006

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

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

Report on other legal and regulatory requirements

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

Matters on which we are required to report by exception

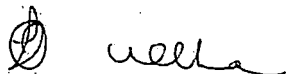
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- 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

We have nothing to report in respect of these matters.

Use of our report

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



.....
Lee Welham, FCA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP, Statutory Auditor

Cambridge
United Kingdom

20 September 2019

Brush Electrical Machines Limited

Income Statement for the Year Ended 31 December 2018

	Note	2018 £ 000	2017 £ 000
Revenue	4	35,048	57,877
Cost of sales		<u>(31,774)</u>	<u>(44,761)</u>
Gross profit		3,274	13,116
Distribution costs		(3,378)	(3,863)
Administrative expenses		(5,180)	(10,043)
Exceptional operating items	6	(166,579)	(164,345)
Other operating income	5	<u>-</u>	<u>265</u>
Operating loss	7	(171,863)	(164,870)
Income from shares in group undertakings		12,304	23,701
Finance income	9	1,360	2,101
Finance costs	10	<u>(1,539)</u>	<u>(769)</u>
Loss before tax		(159,738)	(139,837)
Tax on loss	13	<u>443</u>	<u>1,168</u>
Loss for the year attributable to owners of the Company		<u><u>(159,295)</u></u>	<u><u>(138,669)</u></u>

The above results were derived from continuing operations.

Brush Electrical Machines Limited

Statement of Comprehensive Income for the Year Ended 31 December 2018

	2018 £ 000	2017 £ 000
Loss for the year	<u>(159,295)</u>	<u>(138,669)</u>
Items that will not be reclassified subsequently to profit or loss		
Remeasurements of post employment benefit obligations	5,291	(8,871)
Income tax relating to items that will not be reclassified subsequently to the income statement	<u>(899)</u>	<u>1,707</u>
	<u>4,392</u>	<u>(7,164)</u>
Items that may be reclassified subsequently to profit or loss		
(Loss)/gain on cash flow hedges (net)	(212)	495
Income tax relating to items that may be reclassified subsequently to the income statement	<u>36</u>	<u>(84)</u>
	<u>(176)</u>	<u>411</u>
Total comprehensive income for the year	<u><u>(155,079)</u></u>	<u><u>(145,422)</u></u>

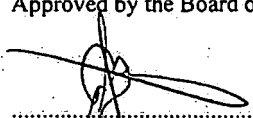
Brush Electrical Machines Limited

(Registration number: 00111849)
Balance Sheet as at 31 December 2018

	Note	2018 £ 000	2017 £ 000
Non-current assets			
Intangible assets	14	57	-
Property, plant and equipment	15	40	-
Investments	16	107,058	253,958
Retirement benefit assets	24	12,426	8,272
		<u>119,581</u>	<u>262,230</u>
Current assets			
Inventories	17	2,171	9,016
Trade and other receivables	18	32,016	32,784
Derivative financial instruments	29	17	633
Cash at bank and in hand		10,368	11,125
		<u>44,572</u>	<u>53,558</u>
Total assets		<u>164,153</u>	<u>315,788</u>
Current liabilities			
Trade and other payables	19	(15,756)	(17,484)
Loans and borrowings	21	-	(4)
Derivative financial instruments	29	(10)	(160)
Provisions	22	(5,926)	(555)
Current liabilities		<u>(21,692)</u>	<u>(18,203)</u>
Net current assets		<u>22,880</u>	<u>35,355</u>
Total assets less current liabilities		<u>142,461</u>	<u>297,585</u>
Non-current liabilities			
Trade and other payables	20	(304,308)	(304,308)
Non-current liabilities		<u>(304,308)</u>	<u>(304,308)</u>
Deferred tax liabilities	23	(450)	(238)
Net liabilities		<u>(162,297)</u>	<u>(6,961)</u>
Equity			
Share capital	25	1,000	1,000
Hedging reserve	26	6	182
Other reserves		493	493
Retained earnings	26	(163,796)	(8,636)
Equity attributable to owners of the Company		<u>(162,297)</u>	<u>(6,961)</u>

Brush Electrical Machines Limited
(Registration number: 00111849)
Balance Sheet as at 31 December 2018

Approved by the Board on 20 September 2019 and signed on its behalf by:

A handwritten signature in black ink, appearing to be 'G E Barnes', written over a horizontal dotted line.

G E Barnes
Director

Brush Electrical Machines Limited

Statement of Changes in Equity for the Year Ended 31 December 2018

	Share capital £ 000	Hedging reserve £ 000	Other reserves £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2017	1,000	(229)	493	137,197	138,461
Loss for the year	-	-	-	(138,669)	(138,669)
Other comprehensive income	-	411	-	(7,164)	(6,753)
Total comprehensive income	-	411	-	(145,833)	(145,422)
At 31 December 2017	1,000	182	493	(8,636)	(6,961)
	Share capital £ 000	Hedging reserve £ 000	Other reserves £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2018	1,000	182	493	(8,636)	(6,961)
Loss for the year	-	-	-	(159,295)	(159,295)
Other comprehensive income	-	(176)	-	4,392	4,216
Total comprehensive income	-	(176)	-	(154,903)	(155,079)
Implementation of IFRS 9	-	-	-	(257)	(257)
At 31 December 2018	1,000	6	493	(163,796)	(162,297)

Brush Electrical Machines Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

1 General information

The Company is a private company limited by share capital incorporated in the United Kingdom under the Companies Act and is registered in England and Wales. 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 20 September 2019.

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 'Application of Financial Reporting Requirements' issued by the FRC. Accordingly, these financial statements were prepared in accordance with FRS 101 'Reduced Disclosure Framework'.

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.

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 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.

Brush Electrical Machines Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

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 financial statements of Melrose Industries PLC.

Adoption of new and revised Standards

New standards, interpretations and amendments effective

The following have been applied for the first time from 1 January 2018.

IFRS 9: Financial Instruments

The Company adopted IFRS 9: "Financial Instruments" on 1 January 2018. IFRS 9 replaces IAS 39 and the main impact relates to: a) classification and measurement of financial assets and liabilities, b) impairment of financial assets, and c) hedge accounting. The Company has elected not to restate the comparatives. Following management's review, no change in net assets was identified.

The Company has reviewed the classification of its financial instruments and has concluded the following:

- There is no change in the classification of derivative financial instruments that were classified as "fair value through profit and loss", as under IFRS 9 they fail the contractual cash flow characteristics test in IFRS 9 (4.1.2(b) and 4.1.2A(b));
- Financial assets previously classified within the "loans and receivables" category are classified in the "amortised cost" category.

IFRS 15: Revenue from Contracts with Customers (and the related clarifications)

The Company adopted IFRS 15: "Revenue from Contracts with Customers" on 1 January 2018 using the full retrospective approach. Due to the immaterial impact of IFRS 15 on the Company for the year ended 31 December 2017, no further disclosure is provided on the comparative results or balance sheet position. There was no impact on revenue or operating profit for the Company.

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.

Brush Electrical Machines Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

2 Accounting policies (continued)

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 nature of agreements into which the Company enters means that:

Certain of the Company's arrangements with its customers are multiple element arrangements that can include any combination of products and services such as extended warranties, installation and start up testing as deliverables. With the exception of certain extended warranty arrangements, substantially all of the deliverables within the Company's multiple-element arrangements are delivered within a one year period. Revenue for any undelivered elements are deferred until delivery occurs. The Company allocates revenue to multiple-element arrangements based on the relative fair value of each element's estimated selling price.

The service element of the contract is usually insignificant in relation to the total contract value and is often provided on a short-term or one-off basis. Where this is the case, revenue is recognised when the service is complete.

Aftermarket activities generally relate to the provision of spare parts, repairs and the rebuild of equipment. Revenue on the provision of parts is recognised in accordance with the policy on the sale of goods and revenue for repairs and rebuild is recognised upon completion of the activity.

The significant majority of the Company's revenue is recognised on a sale of goods basis.

The specific methods used to recognise the different forms of revenue earned by the Company are as follows:

Sale of goods

Revenue is recognised when all of the following conditions are satisfied:

- the Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Company; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Transfers of risks and rewards vary depending on the nature of the products sold and the individual terms of the contract of sale. Sales made under internationally accepted trade terms are recognised as revenue when the Company has completed the primary duties required to transfer risks as stipulated in those terms. Sales made outside of such terms are generally recognised on delivery to the customer.

No revenue is recognised where recovery of the consideration is not probable or there are significant uncertainties regarding associated costs or the possible return of goods.

Provision of services

As noted above, because revenue from the rendering of services is usually not significant in relation to the total contract value and is generally provided on a short-term or one-off basis, revenue is usually recognised when the service is complete.

Brush Electrical Machines Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

2 Accounting policies (continued)

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.

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.

The Company's liability for current tax is calculated 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.

Brush Electrical Machines Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

2 Accounting policies (continued)

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.

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.

Depreciation

Depreciation is recognised on all tangible property, plant and equipment, 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. The estimated useful lives, residual values and depreciation method are reviewed at the end of every reporting period. Depreciation is provided as follows:

Asset class	Depreciation rate
Plant and equipment	10 to 15 years

Brush Electrical Machines Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

2 Accounting policies (continued)

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 income statement 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:

Asset class	Amortisation rate
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 2018

2 Accounting policies (continued)

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.

Brush Electrical Machines Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

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.

Environmental and legal

Liabilities for environmental and legal costs are recognised when environmental assessments or legal claims are probable and the associated costs can be reasonably estimated. The amount recognised is the best estimate of the expenditure required.

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 to income 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 2018

2 Accounting policies (continued)

Impairment of non-financial assets

At each balance sheet date, the Company reviews the carrying amounts of its non-financial 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.

Retirement benefit costs

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

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

All financial assets are classified as either those which are measured at fair value, through profit or loss, or Other Comprehensive Income, and those measured at amortised cost.

Brush Electrical Machines Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

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 the income statement.

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.

Derecognition of financial assets

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

Brush Electrical Machines Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

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 reorganisation.

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.

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 asset 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 2018

2 Accounting policies (continued)

Financial liabilities and equity

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.

Derecognition of financial liabilities

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 2018

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 foreign exchange rate risk, including foreign exchange forward contracts and swaps.

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.

Hedge accounting

The Company designates certain hedging instruments as 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.

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 2018

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.

There are no critical judgements, apart from those involving estimations, to disclose within the scope of paragraph 122 of IAS 1: "Presentation of financial statements".

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.

Retirement benefit obligations

The Company's defined benefit obligation is discounted at a rate set by reference to market yields at the end of the reporting period on high quality corporate bonds. Significant judgement is required when setting the criteria for bonds to be included in the population from which the yield curve is derived. The most significant criteria considered for the selection of bonds include the issue size of the corporate bonds, quality of the bonds and the identification of outliers which are excluded. In addition judgement is made in determining mortality rate assumptions to be used when valuing the Company's defined benefit obligations. At 31 December 2018, the Company's retirement benefit obligation net asset was £12.4 million (31 December 2017: £8.3 million). Further details of the assumptions applied and a sensitivity analysis on the principal assumptions used to determine the Company's defined benefit obligations is shown in note 24.

Brush Electrical Machines Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

4 Revenue

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

	2018 £ 000	2017 £ 000
Sale of goods	23,729	48,840
Rendering of services	11,319	9,037
Revenue	<u>35,048</u>	<u>57,877</u>
Other operating income	-	265
Finance income	1,360	2,101
Income from shares in group undertakings	12,304	23,701
	<u>13,664</u>	<u>26,067</u>
Total revenue as defined by IFRS 15	<u>48,712</u>	<u>83,944</u>

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

	2018 £ 000	2017 £ 000
United Kingdom	5,914	4,587
Europe	9,827	25,841
North America	5,256	14,981
Asia	10,760	9,665
Rest of the world	3,291	2,803
	<u>35,048</u>	<u>57,877</u>

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

	2018 £ 000	2017 £ 000
Energy	1,782	9,384
Oil & gas	11,119	4,311
Industrials	845	10,467
Aftermarket	20,420	33,715
Mining	840	-
Rail	42	-
	<u>35,048</u>	<u>57,877</u>

Brush Electrical Machines Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

5 Other operating income (expense)

The analysis of the company's other operating income (expense) for the year is as follows:

	2018 £ 000	2017 £ 000
Other operating income (expense)	-	265

Other income in 2017 related to sales of scrap.

6 Adjusting items

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

	2018 £ 000	2017 £ 000
Impairment of property, plant and equipment	-	(13,219)
Impairment of investment in subsidiaries	(146,900)	(121,393)
Reorganisation costs	(16,680)	(3,106)
Impairment of loan receivables	(2,999)	(26,627)
	<u>(166,579)</u>	<u>(164,345)</u>

During the year, a review of the carrying value of the Company's investments in subsidiaries identified impairments with a total value of £146,900,000. A similar review in 2017 identified impairments of £121,393,000.

A restructuring programme was announced during the year to cease Generator manufacturing at the UK site and 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 £16,680,000. A similar programme in 2017 resulted in costs of £3,106,000.

During the year, a review of the carrying value of the Company's loan receivable balances identified impairments with a total value of £2,999,000. A similar review in 2017 identified impairments of £26,627,000.

Brush Electrical Machines Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

7 Operating loss

Arrived at after charging/(crediting)

	2018 £ 000	2017 £ 000
Depreciation expense	4	1,602
Amortisation expense	6	303
Impairment loss	-	134,612
Research and development spend	401	497
Foreign exchange (gains)/losses	(301)	3,540
Staff costs	15,902	20,702
Operating lease rentals	28	51
Cost of inventories recognised as expense	31,774	44,761
Write-downs of inventory	4,763	86
Reversals of write-downs of inventory	(1,657)	-

8 Auditor's remuneration

	2018 £ 000	2017 £ 000
Audit of the financial statements	90	103
Other fees to auditors	-	8
Other non-audit services	-	-

9 Finance income

	2018 £ 000	2017 £ 000
Interest income on bank deposits	2	27
Interest on loans to Group undertakings	1,358	2,074
	1,360	2,101

Brush Electrical Machines Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

10 Finance costs

	2018 £ 000	2017 £ 000
Interest on bank overdrafts and borrowings	(17)	-
Interest on loans from Group undertakings	45	341
Net interest (benefit)/cost on pensions	(206)	(458)
Preference share dividends	1,717	886
	<u>1,539</u>	<u>769</u>

11 Staff costs

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

	2018 £ 000	2017 £ 000
Wages and salaries	13,932	17,945
Social security costs	1,253	1,773
Pension costs, defined contribution scheme	717	984
	<u>15,902</u>	<u>20,702</u>

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

	2018 No.	2017 No.
Production	209	350
Sales, marketing and distribution	26	27
Administration and support	37	50
	<u>272</u>	<u>427</u>

12 Directors' remuneration

The directors' remuneration for the year was as follows:

	2018 £ 000	2017 £ 000
Remuneration	<u>400</u>	<u>-</u>

In respect of the highest paid director:

	2018 £ 000	2017 £ 000
Remuneration	<u>240</u>	<u>-</u>

Brush Electrical Machines Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

12 Directors' remuneration (continued)

Two of the Directors received a total of £400,000 remuneration for their services to the Company during the year (year ended 31 December 2017: £nil). The remaining 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.

13 Income tax

Tax charged/(credited) in the income statement

	2018 £ 000	2017 £ 000
Withholding taxes	155	380
Total current income tax	155	380
Deferred taxation		
Arising from origination and reversal of temporary differences	(598)	(1,548)
Tax credit in the income statement	(443)	(1,168)

The tax on loss before tax for the year is higher than the standard rate of corporation tax in the UK (2017: higher than the standard rate of corporation tax in the UK) of 19% (2017: 19.25%).

The differences are reconciled below:

	2018 £ 000	2017 £ 000
Loss before tax	(159,738)	(139,837)
Corporation tax at standard rate	(30,350)	(26,919)
Adjustment for prior periods	260	1,105
Non-taxable income	(2,338)	(4,562)
Expenses not deductible in determining taxable profit	29,028	28,667
Group relief at nil consideration	2,835	161
Withholding taxes	155	380
Effect of rate differences on deferred tax recognition	(33)	-
Total tax credit	(443)	(1,168)
Tax recognised in other comprehensive income		

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

	2018 £ 000	2017 £ 000
Deferred tax		
Financial instruments treated as cash flow hedges	(36)	84
Retirement benefit obligations	899	(1,707)
	863	(1,623)

Brush Electrical Machines Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

13 Income tax (continued)

Further changes to the main rate of UK corporation tax were enacted in the Finance Act 2016. The UK corporation tax rate was reduced to 19% with effect from 1 April 2017 and 17% with effect from 1 April 2020. There is no impact arising from these future rate changes in this period (2017: no impact).

14 Intangible assets

	Computer software £ 000	Total £ 000
Cost or valuation		
At 1 January 2018	2,814	2,814
Additions	63	63
Disposals	(391)	(391)
At 31 December 2018	<u>2,486</u>	<u>2,486</u>
Amortisation		
At 1 January 2018	2,814	2,814
Amortisation charge	6	6
Eliminated on disposals	(391)	(391)
At 31 December 2018	<u>2,429</u>	<u>2,429</u>
Carrying amount		
At 31 December 2018	<u>57</u>	<u>57</u>

15 Property, plant and equipment

	Plant and equipment £ 000	Total £ 000
Cost or valuation		
At 1 January 2018	53,087	53,087
Additions	165	165
Disposals	(31,444)	(31,444)
At 31 December 2018	<u>21,808</u>	<u>21,808</u>
Accumulated depreciation		
At 1 January 2018	53,087	53,087
Charge for the year	4	4
Eliminated on disposal	(31,444)	(31,444)
Impairment	121	121
At 31 December 2018	<u>21,768</u>	<u>21,768</u>

Brush Electrical Machines Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

15 Property, plant and equipment (continued)

	Plant and equipment £ 000	Total £ 000
Carrying amount		
At 31 December 2018	<u>40</u>	<u>40</u>

As part of the Company's reorganisation programme to transfer the Generator Manufacturing activity to Brush SEM s.r.o., assets totalling £31,444,000 were disposed of in the year (year ending 31 December 2017: £1,090,000).

£121,000 of purchase commitments from year ending 31 December 2017 were realised in year ending 31 December 2018 and were impaired in line with the previous year's detailed impairment review of property, plant and equipment (impairment year ending 31 December 2017: £12,737,000).

16 Investments

Subsidiaries	£ 000
Cost or valuation	
At 1 January 2018	<u>463,712</u>
At 31 December 2018	<u>463,712</u>
Provision for impairment	
At 1 January 2018	209,754
Provision created	<u>146,900</u>
At 31 December 2018	<u>356,654</u>
Carrying amount	
At 31 December 2018	<u>107,058</u>
At 31 December 2017	<u>253,958</u>

Following the significant group restructure and operational closures, investments impairments related to the investment in Brush SEM s.r.o. were recorded totalling £161,700,000 (2017: £121,393,000).

A detailed impairment review was performed by management to assess the recoverability of the Company's investments in Brush SEM s.r.o. at the year end.

This review involved management estimating future cash flows expected to arise from the investment and also to estimate a suitable discount rate in order to calculate present value. Management are able to draw on their experience as well as external sources in order to make their estimates.

As a result of the work performed, management considered the carrying value of the investment in Brush SEM s.r.o. to be partially recoverable and an impairment for the difference has therefore been recognised during the year.

Brush Electrical Machines Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

16 Investments (continued)

Details of the subsidiaries and associates as at 31 December 2018 and 31 December 2017 are as follows:

Name of subsidiary	Principal activity	Country of incorporation and principal place of business	Proportion of ownership interest and voting rights held	
			2018	2017
Brush Scheme Trustees Limited*	Dormant	11th Floor, The Colmore Building, 20 Colmore Circus Queensway, Birmingham, B4 6AT, United Kingdom	100%	100%
Brush SEM s.r.o.*	Engineering company	Edvarda Benese 564/39, Doudlevce, 301 00 Plzen, Czech Republic	100%	100%
Brush HMA B.V.*	Engineering company	Ringdijk 390B, 2983 GS, Postbus 3007, 2980 DA, Ridderkerk, The Netherlands	100%	100%
Harrington Generators International Limited*	Engineering company	11th Floor, The Colmore Building, 20 Colmore Circus Queensway, Birmingham, B4 6AT, United Kingdom	100%	100%
Brush Transformers Limited*	Engineering company	11th Floor, The Colmore Building, 20 Colmore Circus Queensway, Birmingham, B4 6AT, United Kingdom	100%	100%
Brush Aftermarket North America Inc*	Holding company	601 Braddock Avenue, Turtle Creek, Pittsburgh, Pennsylvania, 15145, USA	100%	100%
Brush Canada Services Inc/Services Brush Canada Inc*	Engineering company	19 rue des Mesanges, Montreal, Quebec, H3E 1WZ, Canada	100%	100%
Hawker Siddeley Switchgear Limited*	Engineering company	11th Floor, The Colmore Building, 20 Colmore Circus Queensway, Birmingham, B4 6AT, United Kingdom	100%	100%
Brush Electrical Engineering Company Limited*	Dormant	11th Floor, The Colmore Building, 20 Colmore Circus Queensway, Birmingham, B4 6AT, United Kingdom	100%	100%

Brush Electrical Machines Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

16 Investments (continued)

Generator and Motor Services of Pennsylvania LLC	Engineering company	601 Braddock Avenue, Turtle Creek, Pittsburgh, Pennsylvania, 15145, USA	100%	100%
Brush Electrical Machines (Changshu) Co Limited	Engineering company	8 Changhong Road, Changshu Economic Development Zone, Jiangsu Province, 215500, China	100%	100%
Brush Switchgear Limited	Dormant	11th Floor, The Colmore Building, 20 Colmore Circus Queensway, Birmingham, B4 6AT, United Kingdom	100%	100%
Bristol Meci Australasia Pty Limited	Holding company	2 Frawley Avenue, Narangba, Queensland, 4504, Australia	100%	100%
Hawker Siddeley Switchgear Pty Limited	Engineering company	2 Frawley Avenue, Narangba, Queensland, 4504, Australia	100%	100%
Mediterranean Power Electric Company Limited	Engineering company	Marsa Industrial Estate, Marsa, MRS 3000, Malta	26%	26%

* owned directly by the Company

All holdings relate to Ordinary Shares unless otherwise stated.

17 Inventories

	2018 £ 000	2017 £ 000
Raw materials and consumables	313	2,525
Work in progress	1,762	5,019
Finished goods and goods for resale	96	1,472
	<u>2,171</u>	<u>9,016</u>

Brush Electrical Machines Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

18 Trade and other receivables

	2018 £ 000	2017 £ 000
Trade receivables	5,937	11,891
Provision for impairment of trade receivables	(397)	(100)
Net trade receivables	5,540	11,791
Amounts owed by Group undertakings	23,250	18,603
Prepayments and accrued income	1,904	811
Other receivables	1,322	1,579
Total trade and other receivables	<u>32,016</u>	<u>32,784</u>

Amounts owed by Group undertakings are receivable balances with fellow subsidiary undertakings of the Melrose group of companies, on standard terms.

Details of non-current trade and other receivables

Included within trade and other receivables are the following amounts receivable after more than one year:

	2018 £ 000	2017 £ 000
Other receivables	93	182
	<u>93</u>	<u>182</u>

19 Trade and other payables - amounts falling due within one year

	2018 £ 000	2017 £ 000
Trade payables	2,157	3,236
Accruals and deferred income	4,852	4,976
Amounts owed to Group undertakings	8,265	8,021
Social security and other taxes	370	534
Payments on account	112	717
	<u>15,756</u>	<u>17,484</u>

Amounts owed to group undertakings are payable balances with fellow subsidiary undertakings of the Melrose group of companies, on standard terms.

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

	2018 £ 000	2017 £ 000
Preference shares	<u>304,308</u>	<u>304,308</u>

Brush Electrical Machines Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

20 Trade and other payables - amounts falling due after more than one year (continued)

Further details regarding preference shares are set out in note 25.

21 Loans and borrowings

	2018 £ 000	2017 £ 000
Loans and borrowings - amounts falling due within one year		
Bank overdrafts	-	4

22 Provisions

	Warranties £ 000	Environmental & Legal £ 000	Restructuring £ 000	Other provisions £ 000
At 1 January 2018	137	-	418	-
Additional provisions charged	1,106	400	12,980	400
Provisions utilised	(88)	-	(9,371)	-
Unused provision reversed	-	-	(56)	-
At 31 December 2018	1,155	400	3,971	400
Current	1,155	400	3,971	400
				Total £ 000
At 1 January 2018				555
Additional provisions charged				14,886
Provisions utilised				(9,459)
Unused provision reversed				(56)
At 31 December 2018				5,926
Current				5,926

Brush Electrical Machines Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

22 Provisions (continued)

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 Environmental & Legal relates to an unresolved litigation matter, and is expected to be utilised within one year of the balance sheet date.

The provision for restructuring relates to reorganisation plans which have been announced to transfer the Generator Manufacturing operations to Brush SEM s.r.o. and 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.

The other provision relates to the expected repair work on a customer asset and is expected to be utilised within one year of the balance sheet date.

23 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
2018			
Accelerated tax depreciation	-	853	853
Other temporary differences	-	809	809
Retirement benefit obligations	-	(2,112)	(2,112)
	<u>-</u>	<u>(450)</u>	<u>(450)</u>
	<u>-</u>	<u>(450)</u>	<u>(450)</u>
2017			
Accelerated tax depreciation	-	1,178	1,178
Other temporary differences	-	(10)	(10)
Retirement benefit obligations	-	(1,406)	(1,406)
	<u>-</u>	<u>(238)</u>	<u>(238)</u>
	<u>-</u>	<u>(238)</u>	<u>(238)</u>

Brush Electrical Machines Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

23 Deferred tax (continued)

	Accelerated tax depreciation £ 000	Other temporary differences £ 000	Tax losses £ 000	Retirement benefit obligations £ 000
At 1 January 2017	(1,089)	47	550	(2,917)
Recognised in income	2,267	27	(550)	(196)
Recognised in equity	-	(84)	-	1,707
At 31 December 2017	<u>1,178</u>	<u>(10)</u>	<u>-</u>	<u>(1,406)</u>
				Total £ 000
At 1 January 2017				(3,409)
Recognised in income				1,548
Recognised in equity				<u>1,623</u>
At 31 December 2017				<u>(238)</u>
	Accelerated tax depreciation £ 000	Other temporary differences £ 000	Retirement benefit obligations £ 000	Total £ 000
At 1 January 2018	1,178	(10)	(1,406)	(238)
Recognised in income	(325)	730	193	598
Recognised in equity	-	89	(899)	(810)
At 31 December 2018	<u>853</u>	<u>809</u>	<u>(2,112)</u>	<u>(450)</u>

24 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 £717,000 (2017: £984,000).

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 2018

24 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 2018 by independent actuaries.

Contributions payable to the pension scheme at the end of the year are £Nil (2017: £Nil).

The expected contributions to the plan for the next reporting period are £Nil.

Brush Electrical Machines Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

24 Pension schemes (continued)

Reconciliation of scheme assets and liabilities to assets and liabilities recognised

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

	2018 £ 000	2017 £ 000
Fair value of scheme assets	243,713	262,890
Present value of scheme liabilities	(231,287)	(254,618)
Defined benefit pension scheme surplus	<u>12,426</u>	<u>8,272</u>

Scheme assets

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

	2018 £ 000	2017 £ 000
Fair value at start of year	262,890	253,553
Interest income	6,436	6,729
Return on plan assets, excluding amounts included in interest income	(14,175)	11,589
Benefits paid	(10,907)	(8,508)
Administrative expenses paid	(531)	(473)
Fair value at end of year	<u>243,713</u>	<u>262,890</u>

Analysis of assets

The major categories of scheme assets are as follows:

	2018 £ 000	2017 £ 000
Cash and cash equivalents	26,351	18,728
Equity instruments	77,853	111,255
Debt instruments	139,131	132,907
Real estate	378	-
	<u>243,713</u>	<u>262,890</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.

Brush Electrical Machines Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

24 Pension schemes (continued)

Actual return on scheme's assets

	2018 £ 000	2017 £ 000
Actual return on scheme assets	<u>(7,739)</u>	<u>18,318</u>

Scheme liabilities

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

	2018 £ 000	2017 £ 000
Present value at start of year	254,618	236,395
Past service cost	812	-
Actuarial (gains) and losses arising from changes in demographic assumptions	(1,472)	(480)
Actuarial (gains) and losses arising from changes in financial assumptions	(18,656)	11,625
Actuarial (gains) and losses arising from experience adjustments	662	9,315
Interest cost	6,230	6,271
Benefits paid	<u>(10,907)</u>	<u>(8,508)</u>
Present value at end of year	<u>231,287</u>	<u>254,618</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:

	2018 %	2017 %
Discount rate	2.90	2.50
Future pension increases	3.20	3.20
Inflation	<u>2.10</u>	<u>2.10</u>

Brush Electrical Machines Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

24 Pension schemes (continued)

Post retirement mortality assumptions

	2018 Years	2017 Years
Current UK pensioners at retirement age - male	21.30	21.40
Current UK pensioners at retirement age - female	23.20	23.30
Future UK pensioners at retirement age - male	22.70	22.80
Future UK pensioners at retirement age - female	<u>24.70</u>	<u>24.80</u>

The assumptions were that a member currently aged 65 will live on average for a further 21.3 years (31 December 2017: 21.4 years) if they are male and for a further 23.2 years (31 December 2017: 23.3 years) if they are female. For a member who retires in 2035 at age 65, the assumptions were that they will live for a further 22.7 years (31 December 2017: 22.8 years) after retirement if they are male and for a further 24.7 years (31 December 2017: 24.8 years) after retirement if they are female.

Amounts recognised in the income statement

	2018 £ 000	2017 £ 000
Amounts recognised in operating profit		
Past service cost	812	-
Administrative expenses paid	<u>531</u>	<u>473</u>
Recognised in arriving at operating profit	<u>1,343</u>	<u>473</u>
Amounts recognised in finance income or costs		
Net interest	<u>(206)</u>	<u>(458)</u>
Total recognised in the income statement	<u><u>1,137</u></u>	<u><u>15</u></u>

Amounts taken to the Statement of Comprehensive Income

	2018 £ 000	2017 £ 000
Actuarial gains and losses arising from changes in financial assumptions	19,466	(20,460)
Return on plan assets, excluding amounts included in interest income	<u>(14,175)</u>	<u>11,589</u>
Amounts recognised in the Statement of Comprehensive Income	<u><u>5,291</u></u>	<u><u>(8,871)</u></u>

Sensitivity analysis

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

Brush Electrical Machines Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

24 Pension schemes (continued)

		2018		2017	
Adjustment to discount rate	+ 0.1% £ 000	0.0% £ 000	- 0.1% £ 000	+ 0.1% £ 000	- 0.1% £ 000
Present value of total obligation	<u>(4,400)</u>	<u>-</u>	<u>4,500</u>	<u>(4,800)</u>	<u>4,900</u>
		2018		2017	
Adjustment to rate of inflation	+ 0.1% £ 000	0.0% £ 000	- 0.1% £ 000	+ 0.1% £ 000	- 0.1% £ 000
Present value of total obligation	<u>2,200</u>	<u>-</u>	<u>(2,300)</u>	<u>2,600</u>	<u>(2,800)</u>
		2018		2017	
Adjustment to mortality age rating assumption	+ 1 Year £ 000	None £ 000	- 1 Year £ 000	+ 1 Year £ 000	- 1 Year £ 000
Present value of total obligation	<u>7,700</u>	<u>-</u>	<u>(7,700)</u>	<u>8,200</u>	<u>(8,200)</u>

25 Share capital

Authorised, issued and fully paid shares

	2018		2017	
	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 20). 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.

Brush Electrical Machines Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

26 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	Retained earnings £ 000	Total £ 000
Loss on cash flow hedges	(176)	-	(176)
Remeasurements of post employment benefit obligations	-	4,392	4,392
	<u>(176)</u>	<u>4,392</u>	<u>4,216</u>

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

	Hedging reserve £ 000	Retained earnings £ 000	Total £ 000
Gain on cash flow hedges	411	-	411
Remeasurements of post employment benefit obligations	-	(7,164)	(7,164)
	<u>411</u>	<u>(7,164)</u>	<u>(6,753)</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.

27 Operating lease arrangements

Operating leases

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

	2018 £ 000	2017 £ 000
Within one year	17	23
In two to five years	-	3
	<u>17</u>	<u>26</u>

The amount of non-cancellable operating lease payments recognised as an expense during the year was £28,000 (2017: £51,000).

Brush Electrical Machines Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

28 Commitments

Capital commitments

Capital commitments are as follows:

	2018 £ 000	2017 £ 000
Contracted for additions to property, plant & equipment	-	221
Contracted for additions to intangible assets	45	-
	<u>45</u>	<u>221</u>

29 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:

2018	Assets £ 000	Liabilities £ 000	Net £ 000
Derivative financial instruments			
Foreign currency forward contracts	<u>17</u>	<u>(10)</u>	<u>7</u>

The maturity of derivative financial instruments is as follows:

2018	Assets £ 000	Liabilities £ 000	Net £ 000
Derivative financial instruments			
Within one year	<u>17</u>	<u>(10)</u>	<u>7</u>

2017	Assets £ 000	Liabilities £ 000	Net £ 000
Derivative financial instruments			
Foreign currency forward contracts	<u>633</u>	<u>(160)</u>	<u>473</u>

The maturity of derivative financial instruments is as follows:

Brush Electrical Machines Limited

Notes to the Financial Statements for the Year Ended 31 December 2018

29 Financial instruments (continued)

2017	Assets	Liabilities	Net
Derivative financial instruments	£ 000	£ 000	£ 000
Within one year	633	(160)	473

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.

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.

30 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.

Copies of the Group financial statements of Melrose Industries PLC are available from its registered address: 11th Floor, The Colmore Building, 20 Colmore Circus Queensway, Birmingham, West Midlands, B4 6AT.