Company Registration No. 00164945

# FKI Limited

## Annual Report and Financial Statements

## 31 December 2011

# FKI Limited

## Report and Financial Statements
## Year ended 31 December 2011

## Officers and professional advisers

**Directors**
G P Martin
S A Peckham
G E Barnes

**Secretary**
G E Barnes

**Registered Office**
Precision House
Arden Road
Alcester
Warwickshire
B49 6HN

**Chartered Accountants and Statutory Auditors**
Deloitte LLP
Chartered Accountants
London, United Kingdom

## FKI Limited

## Directors' report

The Directors present their annual report and the audited financial statements for the year ended 31 December 2011

**Principal activity and review of the business**
The Company's principal activity is to act as an intermediate holding company The Directors do not expect any change in this activity in the foreseeable future

The operating loss for the year ended 31 December 2011 was £1,703,000 (year ended 31 December 2010 loss of £12,258,000) The operating loss for the year ended 31 December 2011 included a £3,745,000 exchange loss (year ended 31 December 2010 £3,758,000 loss) The retained profit for the year ended 31 December 2011 was £102,140,000 (year ended 31 December 2010 profit of £350,564,000)

The Directors paid a dividend for the year of £140,000,000 (year ended 31 December 2010 £527,500,000)

During the year FKI Ltd acquired 80,000,002 Ordinary £0 25 shares in FKI Astraeus Limited from Melrose PLC at market vaue of £224,668,135, to be satisfied by the issue to Melrose PLC of 2,246,681,350 Ordinary £0 10 shares in FKI Limited

Also during the year FKI Ltd acquired 80,000,001 Ordinary £0 25 shares in FKI Helios Limited from Melrose PLC at market value of £107,438,724, to be satisfied by the issue to Melrose PLC of 1,074,387,240 Ordinary £0 10 shares in FKI Ltd

The Company considers its key performance indicators to be in line with those of Melrose PLC as disclosed in the Directors Report of the 2011 Annual Report

**Going concern**
The Directors have considered the going concern assumption given the current economic climate and the net current liabilities of the Company, and have reviewed the Company forecast and considered the financial commitment from the ultimate parent company, which has been confirmed in writing, for the foreseeable future After making enquiries and considering the above facts, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future Accordingly, they continue to adopt the going concern basis in preparing the financial statements

**Financial risk management and policies**
The Company's activities expose it to a number of financial risks including credit risk and liquidity risk

***Credit risk***
The Company's principal financial assets are bank balances and cash and other receivables (including receivables from other Group undertakings)

The Company's credit risk is primarily attributable to its 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 Company has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers

***Liquidity risk***
In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the Company ensures regular communication with other Group companies

# FKI Limited

## Directors' report (continued)

**Directors and their interests**
The Directors who served during the year ended 31 December 2011 and thereafter are listed under 'Officers and professional advisers'  No Director had any interests in the shares of the Company at 31 December 2011

**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

**Charitable and political donations**
There were no political or charitable donations during the year (year ended 31 December 2010  £nil)

**Auditor**
Each of the persons who is a Director at the date of approval of this report confirms that

- so far as the Directors are aware, there is no relevant audit information of which the Company's auditor is unaware, and
- the Directors have taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information

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

Deloitte LLP have indicated their willingness to continue in office as auditor and will be deemed to be re-appointed after the end of the next "period for appointing auditors" as defined in s485(2) of the Companies Act 2006

Approved by the Board of Directors
and signed on behalf of the Board

G E Barnes
Director
23 July 2012

# FKI Limited

## Directors' responsibilities statement

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with the 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) 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 then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, 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

## FKI Limited

# Independent auditor's report to the members of FKI Limited

We have audited the financial statements of FKI Limited for the year ended 31 December 2011, which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the reconciliation of movements in shareholders' funds and the related notes 1 to 18 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

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

**Respective responsibilities of Directors and auditor**

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 Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

**Opinion on 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 2011 and of its profit for the year then ended
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

## FKI Limited

## Independent auditor's report to the members of FKI Limited (continued)

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

In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements

**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

**Jeremy Black (Senior statutory auditor)**
**for and on behalf of Deloitte LLP**
Chartered Accountants and Statutory Auditor
London, United Kingdom
23 July 2012

# FKI Limited

## Profit and Loss Account
## Year ended 31 December 2011

| | Note | Year ended 31 December 2011 £'000 | Year ended 31 December 2010 £'000 |
|---|---|---|---|
| Administrative expenses | | (1,703) | (12,258) |
| **Operating loss** | | (1,703) | (12,258) |
| Exceptional income | 2 | - | 13,100 |
| Exceptional expense | 2 | (12,783) | - |
| **(Loss)/profit on ordinary activities before finance charges** | | (14,486) | 842 |
| Investment income | 3 | 151,722 | 363,288 |
| Finance income | 4 | 2,823 | 25,180 |
| Finance expense | 4 | (32,803) | (38,499) |
| **Profit on ordinary activities before taxation** | 5 | 107,256 | 350,811 |
| Tax charge on profit on ordinary activities | 8 | (5,116) | (247) |
| **Profit for the financial year** | 14 | 102,140 | 350,564 |

The above results derive from continuing operations

## FKI Limited

## Statement of Total Recognised Gains and Losses
## Year ended 31 December 2011

| | Notes | Year ended 31 December 2011 £'000 | Year ended 31 December 2010 £'000 |
|---|---|---|---|
| Profit for the financial year | | 102,140 | 350,564 |
| Actuarial (loss)/gain on pension scheme, net of deferred tax | 16 | (8,600) | 11,520 |
| **Total recognised gains and losses** | | 93,540 | 362,084 |

# FKI Limited

## Balance Sheet
## As at 31 December 2011

| | Note | 2011 £'000 | 2010 £'000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Investments | 9 | 3,204,352 | 2,876,912 |
| | | 3,204,352 | 2,876,912 |
| **Current assets** | | | |
| Debtors | 10 | 62,580 | 83,140 |
| Cash at bank and in hand | | 5,958 | 14,376 |
| | | 68,538 | 97,516 |
| **Creditors:** amounts falling due within one year | 11 | (2,821,445) | (2,799,074) |
| **Net current liabilities** | | (2,752,907) | (2,701,558) |
| **Total assets less current liabilities** | | 451,445 | 175,354 |
| **Provisions for liabilities** | 12 | (24,546) | (34,502) |
| **Pension liability** | 16 | (73,349) | (72,949) |
| **Net assets** | | 353,550 | 67,903 |
| **Capital and reserves** | | | |
| Called-up share capital | 13 | 338,021 | 5,914 |
| Treasury shares | 14 | (546) | (497) |
| Capital redemption reserve | 14 | 2,000 | 2,000 |
| Profit and loss account | 14 | 14,075 | 60,486 |
| **Shareholders' funds** | 15 | 353,550 | 67,903 |

The financial statements of FKI Limited (registered number 00164945) were approved by the Board of Directors and authorised for issue on 23 July 2012

Signed on Behalf of the Board of Directors

G E Barnes

Director

# Notes to the financial statements
# Year ended 31 December 2011

## 1 Accounting policies

The principal accounting policies are summarised below They have all been applied consistently throughout the year and the preceding year

**Basis of preparation**
The financial statements have been prepared under the historical cost convention, in accordance with applicable United Kingdom law and accounting standards, and on a going concern basis as described in the Directors' report

The company has taken advantage of the exemption from preparing group financial statements afforded by section 400 of the Companies Act 2006 because it is a wholly owned subsidiary undertaking of Melrose PLC, which prepares consolidated financial statements which are publicly available

**Going concern**
The Directors have considered the going concern assumption given the current economic climate and the net current liabilities of the Company, and have reviewed the Company forecast and considered the financial commitment from the ultimate parent company, which has been confirmed in writing, for the foreseeable future After making enquiries and considering the above facts, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future Accordingly, they continue to adopt the going concern basis in preparing the financial statements

**Statement of Cash Flow**
Under the provisions of FRS 1 "Cash Flow Statements" (Revised 1996), the Company has not prepared a statement of cash flows because its ultimate parent undertaking, Melrose PLC, has prepared consolidated financial statements which include the financial statements of the Company and which contain a Statement of Cash Flows

**Investments**
The Company's investments in shares in Group companies are stated at cost less provision for impairments in value Income received from investments is credited to the Profit and Loss Account on a receivables basis

**Taxation**
Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted or substantively enacted by the Balance Sheet date

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the Balance Sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the Balance Sheet date Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements

A net deferred tax asset is regarded as recoverable and therefore recognised only when on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax is not recognised when fixed assets are revalued unless by the Balance Sheet date there is a binding agreement to sell the revalued asset and the gain or loss expected to arise on sale has been recognised in the financial statements Neither is deferred tax recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold

Deferred tax is measured at the average rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the Balance Sheet date Deferred tax is measured on a non-discounted basis

**1 Accounting policies (continued)**

**Defined benefit pension scheme**

Pension liabilities are measured at their present value in accordance with actuarial assumptions that are updated at each Balance Sheet date Pension assets are measured at fair value The pension liability or asset is recognised in the Balance Sheet

Pension costs for the Company's defined benefit pension schemes and other post-retirement benefits are recognised as follows

Within operating profit

- the current service cost arising from employee service in the current period,
- the prior service cost related to employee service in prior periods arising in the current period as a result of improvements to benefits, and
- gains and losses arising on unanticipated settlements or curtailments where the item that gave rise to the settlement or curtailment is recognised within operating profit

Within other finance cost or income

- the interest cost on the liabilities, calculated by reference to the scheme liabilities and discount rate at the beginning of the period, and
- the expected return on assets, calculated by reference to the assets and their long-term expected rate of return at the beginning of the period

Within the statement of total recognised gains and losses

- on the scheme assets - the difference between the expected and actual return on assets, and
- on the scheme liabilities - (a) the differences between the actuarial assumptions and actual experience, and (b) the effect of changes in actuarial assumptions

**Foreign currencies**

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction Monetary assets and liabilities denominated in foreign currencies at the Balance Sheet date are translated to sterling at the foreign exchange rate ruling at that date Foreign exchange differences arising on translation are recognised in the Profit and Loss Account with the exception of differences on foreign currency borrowings, to the extent that they are used to finance or provide a hedge against foreign equity investments, which are taken directly to reserves together with the exchange difference on the carrying amount on the related investments Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in reserves

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at the foreign exchange rates ruling at the dates the fair values were determined

**Finance costs**

Finance costs of financial liabilities are recognised in the Profit and Loss Account over the term of such instruments at a constant rate on the carrying amount

**Bank borrowings**

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs Finance charges including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the Profit and Loss Account using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise

**Provisions**

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows as a rate that reflects the current market assessment of the time value of money and, where appropriate, the risks specific to the liability Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost

## 2 Exceptional items

| | Year ended 31 December 2011 £'000 | Year ended 31 December 2010 £'000 |
|---|---|---|
| **Exceptional income** | | |
| Curtailment gain | - | 13,100 |
| | - | 13,100 |

| | Year ended 31 December 2011 £'000 | Year ended 31 December 2010 £'000 |
|---|---|---|
| **Exceptional expense** | | |
| Costs relating to sale of subsidiary undertaking | (2,864) | - |
| Waiver of loan with other Group Company | (9,919) | - |
| | (12,783) | - |

In 2010 it was announced that the FKI UK Pension Plan would be closed to the accrual of future benefits as of 28 February 2011, this resulted in a curtailment gain of £13,100,000

During the year costs of £2,863,908 were incurred as a result of selling the following Group undertakings, Brush Traction Limited, Madico and FKI Logistex Limited

Also during the year a loan between FKI Ltd and FKI Logistex Limited was waived resulting in an exceptional expense of £9,919,448

## 3 Investment income

| | Year ended 31 December 2011 £'000 | Year ended 31 December 2010 £'000 |
|---|---|---|
| Dividends received from subsidiary undertakings | 151,722 | 363,288 |
| | 151,722 | 363,288 |

## 4 Finance income and expense

| | Year ended 31 December 2011 £'000 | Year ended 31 December 2010 £'000 |
|---|---|---|
| **Interest receivable and similar income** | | |
| Loans and receivables | 772 | 861 |
| Loans to fellow Group undertakings | 2,051 | 24,319 |
| | 2,823 | 25,180 |

| | Year ended 31 December 2011 £'000 | Year ended 31 December 2010 £'000 |
|---|---|---|
| **Interest payable and similar charges** | | |
| Bank overdrafts | (570) | (774) |
| Loans from fellow Group undertakings | (27,553) | (31,744) |
| Defined benefit finance charge | (4,200) | (5,400) |
| Loss on change in fair value of financial instruments | - | (101) |
| Unwind of discount on provisions | (480) | (480) |
| | (32,803) | (38,499) |

## 5 Profit on ordinary activities before taxation

This is stated after charging

| | Year ended 31 December 2011 £'000 | Year ended 31 December 2010 £'000 |
|---|---|---|
| Impairment of investments | 4,667 | 3,684 |
| Increase in legal provisions | 2,868 | 5,500 |
| Net foreign exchange loss | 3,745 | 3,758 |

A review of the carrying value of the Company's investments identified impairments of the investment in Brush Trains Oldco of £1,895,000 and FKI Distribution Limited of £2,772,000 (year ended 31 December 2010 totalled £3,684,000)

A review of legal provisions by the company's legal advisor identified the need to increase an already existing provision by £2,868,000 (year ended 31 December 2010 £5,500,000)

The audit fees payable to the Company's auditor of £100,000 (31 December 2010 £100,000) for the audit of the financial statements were borne by a fellow Group undertaking in both periods

The profit on ordinary activities before taxation includes a defined benefit pension cost of £500,000 (year ended 31 December 2010 £3,517,000) The FKI UK Pension Plan is now closed to new members and on 28 February 2011 it was closed to the accrual of future benefits for existing members

## 6 Staff costs

The aggregate remuneration comprised

| | Year ended 31 December 2011 £'000 | Year ended 31 December 2010 £'000 |
|---|---|---|
| Defined benefit pension costs | 500 | 3,517 |
| | 500 | 3,517 |

Included within defined benefit pension costs are contributions of £1,202,000 from participating Group undertakings (year ended 31 December 2010 £5,447,000)

## 7 Directors' remuneration

The Directors received no remuneration for their services to the Company during the year (year ended 31 December 2010 £nil) The Directors of the Company who served during the year were also Directors of a number of the companies within the Melrose Group The Directors' services to the Company do not occupy a significant amount of their time As such, the Directors do not consider that they have received any remuneration for their incidental services to the Company for the year ended 31 December 2011 or the year ended 31 December 2010

**8 Tax on ordinary activities**

The tax charge comprises

| | Year ended 31 December 2011 £'000 | Year ended 31 December 2010 £'000 |
|---|---|---|
| **Current tax** | | |
| UK corporation tax | (484) | - |
| Withholding taxes | - | 247 |
| **Total current tax (credit)/charge** | (484) | 247 |
| **Deferred tax** | 5,600 | - |
| **Total tax charge** | 5,116 | 247 |

The differences between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit on ordinary activities before taxation is as follows

| | Year ended 31 December 2011 £'000 | Year ended 31 December 2010 £'000 |
|---|---|---|
| **Profit on ordinary activities before taxation** | 107,256 | 350,811 |
| Tax on profit on ordinary activities before taxation at standard UK corporation tax rate of 26 5% (31 December 2010 28%) | 28,423 | 98,227 |
| Effects of | | |
| Expenses not deductible for tax purposes | 5,106 | 2,727 |
| Non taxable income | (40,206) | (101,721) |
| Capital allowances in excess of depreciation | (7) | (9) |
| Other timing differences | (3,742) | (6,346) |
| Utilisation of tax losses | (56) | - |
| Taxable income not in Profit and Loss Account | 56 | 2,801 |
| Group relief surrendered at nil consideration | 10,426 | 4,321 |
| Prior year adjustment | (484) | |
| Withholding taxes | - | 247 |
| **Current tax (credit)/charge** | (484) | 247 |

Due to the uncertainty of future profits, the company has not recognised a deferred tax asset of £18,294,000 (2010 £21,723,000) in respect of carried forward tax losses The amounts not recognised are based on a corporation tax rate of 25% (2010 26%)

# FKI Limited

## Notes to the financial statements
## Year ended 31 December 2011

**9. Investments**

| | Investment in Subsidiary £'000 | Total £'000 |
|---|---|---|
| **Cost** | | |
| At 1 January 2011 | 3,378,830 | 3,378,830 |
| Acquisition of subsidiary | 332,107 | 332,107 |
| At 31 December 2011 | 3,710,937 | 3,710,937 |
| **Provision for impairment** | | |
| At 1 January 2011 | (501,918) | (501,918) |
| Impairment recognised in year | (4,667) | (4,667) |
| At 31 December 2011 | (506,585) | (506,585) |
| **Net book value** | | |
| At 31 December 2011 | 3,204,352 | 3,204,352 |
| At 31 December 2010 | 2,876,912 | 2,876,912 |

The Company has investments in the following subsidiary undertakings

| Name | Nature of business | Country | Holding |
|---|---|---|---|
| **Subsidiary undertakings** | | | |
| FKI Engineering Limited | Engineering | Great Britain | 100% |
| FKI Astraeus Limited | Holding | Great Britain | 100% |
| FKI Helios Limited | Holding | Great Britain | 100% |
| Black Heath Limited | Holding | Guernsey | 100% |
| Hamsard 2291 Limited | Holding | Great Britain | 100% |
| Brush Electrical Machines Limited | Engineering | Great Britain | 100% |
| Bridon Limited | Holding | Great Britain | 100% |
| Brush Trains Oldco | Holding | Great Britain | 20% * |
| FKI Mondiale BV | Holding | Netherlands | 20% * |
| FKI Distribution Limited | Holding | Great Britain | 100% |

* The remaining 80% holding in these companies are held by other Group companies

During the year FKI Ltd acquired 80,000,002 Ordinary £0 25 shares in FKI Astraeus Limited from Melrose PLC at market vaue of £224,668,135, to be satisfied by the issue to Melrose PLC of 2,246,681,350 Ordinary £0 10 shares in FKI Limited

Also during the year FKI Ltd acquired 80,000,001 Ordinary £0 25 shares in FKI Helios Limited from Melrose PLC at market value of £107,438,724, to be satisfied by the issue to Melrose PLC of 1,074,387,240 Ordinary £0 10 shares in FKI Ltd

A review of the carrying value of the Company's investments identified impairments of the investment in Brush Trains Oldco of £1,895,000 and FKI Distribution Limited of £2,772,000 (year ended 31 December 2010 totalled £3,684,000)

# Notes to the financial statements
# Year ended 31 December 2011

## 10 Debtors

| | 2011 £'000 | 2010 £'000 |
|---|---|---|
| **Amounts falling due within one year:** | | |
| Amounts owed by fellow Group undertakings | 61,631 | 82,349 |
| Other debtors | 927 | 769 |
| Prepayments and accrued income | 22 | 22 |
| | 62,580 | 83,140 |

## 11 Creditors-amounts falling due within one year

| | 2011 £'000 | 2010 £'000 |
|---|---|---|
| Bank loans and overdrafts | 13,753 | 22,025 |
| Trade creditors | 177 | 53 |
| Amounts owed to fellow Group undertakings | 2,804,876 | 2,772,754 |
| Other creditors | 1,965 | 1,932 |
| Accruals and deferred income | 674 | 2,310 |
| | 2,821,445 | 2,799,074 |

**12 Provisions for liabilities**

| | Restructuring provision £'000 | Insurance and litigations provision £'000 | Environmental provision £'000 | Total £'000 |
|---|---|---|---|---|
| At 1 January 2011 | 243 | 33,949 | 310 | 34,502 |
| Charged to Profit and Loss Account | - | 2,868 | - | 2,868 |
| Utilisation of provision | - | (13,304) | - | (13,304) |
| Unwinding of discount | - | 480 | - | 480 |
| At 31 December 2011 | 243 | 23,993 | 310 | 24,546 |

A review of legal provisions by the company's legal advisor identified the need to increase an already exisiting provision by £2,868,000 (year ended 31 December 2010 £5,500,000)

**FKI Limited**

**Notes to the financial statements**
**Year ended 31 December 2011**

## 13 Called-up share capital

| | 2011 £'000 | 2010 £'000 |
|---|---|---|
| **Allotted, called-up and fully-paid** | | |
| 3 380 208 590 Ordinary Shares of 10 pence each | 338 021 | - |
| 59 140 000 Ordinary Shares of 10 pence each | - | 5,914 |
| | 338 021 | 5,914 |

During the year 3,321 068 590 Ordinary £0 10 shares were issued to Melrose Plc in exchange for 100% of the share capital in FKI Astraeus Limited and FKI Helios Limited

## 14 Reserves

| | Share premium account £'000 | Treasury shares £'000 | Capital redemption reserve £'000 | Profit and loss account £'000 | Total £'000 |
|---|---|---|---|---|---|
| At 1 January 2010 | 161,093 | (292) | 2 000 | 11 376 | 174 177 |
| Own shares movement | - | (205) | - | 53,433 | 53 228 |
| Result for the year | - | - | - | 350,564 | 350 564 |
| Transfers | (161,093) | - | - | 161 093 | - |
| Dividends paid to other Group subsidiary undertakings | - | - | - | (527,500) | (527 500) |
| Actuarial gain on retirement benefit obligations | - | - | - | 11 520 | 11 520 |
| At 1 January 2011 | - | (497) | 2 000 | 60 486 | 61 989 |
| Own shares movement | - | (49) | - | 49 | - |
| Result for the year | - | - | | 102,140 | 102 140 |
| Dividends paid to other Group subsidiary undertakings | - | - | - | (140,000) | (140 000) |
| Actuarial loss on retirement benefit obligations | - | - | - | (8,600) | (8 600) |
| At 31 December 2011 | - | (546) | 2 000 | 14 075 | 15 529 |

## 15 Reconciliation of movements in shareholders' funds

| | 2011 £'000 | 2010 £'000 |
|---|---|---|
| Profit for the financial year | 102 140 | 350 564 |
| Other recognised gains and losses relating to the year | (8 600) | 11 520 |
| | 93,540 | 362 084 |
| Dividends paid | (140,000) | (527 500) |
| New shares issued | 332 107 | - |
| Net addition to shareholders' funds | 285 647 | (165,416) |
| Opening shareholders funds | 67 903 | 233 319 |
| Closing shareholders' funds | 353 550 | 67 903 |

## Notes to the financial statements
## Year ended 31 December 2011

### 16. Retirement benefit schemes

The Company closed the plan to future service accrual from 28 February 2011 Melrose PLC holds a deed of guarantee with FKI UK Pension Trust Limited, the trustee of the FKI UK Pension Plan, pursuant to which it agreed to contribute £18 5 million to the FKI UK Pension Plan per annum from 1 July 2010 until 1 October 2017

The Company is a participating member of the FKI UK Pension Scheme The date of the most recent full actuarial valuation was 31 December 2008

The valuation of the Group scheme shows the following deficit UK Group scheme £79,349,000 (year ended 31 December 2010 £78,549,000)

The measurement bases required by FRS 17 are likely to give rise to significant fluctuations in the reported amounts of the defined benefit pension scheme's assets and liabilities from year to year, and do not necessarily give rise to a change in the contributions payable into the scheme, which are recommended by the independent actuaries based on the expected long term rate of return on the scheme assets

The assets in the scheme and the expected rates of return at 31 December 2011 were

| | 31 December 2011 Long term rate of return expected % | 31 December 2011 Value £'000 | 31 December 2010 Long term rate of return expected % | 31 December 2010 Value £'000 |
|---|---|---|---|---|
| Equities | 7 00 | 186,200 | 8 50 | 194,625 |
| Debt instruments | 3 97 | 408,200 | 4 60 | 342,400 |
| Other assets | 5 71 | 5,925 | 3 33 | 12,300 |
| Total fair value of scheme assets | | 600,325 | | 549,325 |
| Present value of scheme liabilities | | (679,674) | | (627,874) |
| Deficit in scheme | | (79,349) | | (78,549) |
| Related deferred tax asset | | 6,000 | | 5,600 |
| Net deficit in scheme | | (73,349) | | (72,949) |

The figures above were calculated on the basis of the following assumptions

| | 31 December 2011 % | 31 December 2010 % |
|---|---|---|
| Discount rate | 4 90 | 5 55 |
| Expected rate of salary increases | 0 00 | 4 00 |
| Future pension increases | 3 00 | 3 30 |
| Inflation | 3 10 | 3 45 |

## FKI Limited

## Notes to the financial statements
## Year ended 31 December 2011

Movements in the present value of defined benefit obligations were as follows

| | 31 December 2011 £'000 | 31 December 2010 £'000 |
|---|---|---|
| At 1 January | (627,874) | (618,857) |
| Service cost | (500) | (3,517) |
| Interest cost | (34,200) | (35,000) |
| Contributions from scheme members | (300) | - |
| Actuarial losses | (45,200) | (8,600) |
| Benefits paid | 28,400 | 25,000 |
| Gains on curtailment | - | 13,100 |
| At 31 December | (679,674) | (627,874) |
| Experience adjustments on scheme liabilities | 7% | 1% |

Movements in the value of scheme assets were as follows

| | 31 December 2011 £'000 | 31 December 2010 £'000 |
|---|---|---|
| At 1 January | 549,325 | 508,762 |
| Expected return on plan assets | 30,000 | 29,600 |
| Actuarial gains | 30,600 | 17,600 |
| Member company contributions | 18,500 | 18,363 |
| Contributions from scheme members | 300 | - |
| Benefits paid | (28,400) | (25,000) |
| At 31 December | 600,325 | 549,325 |
| Experience adjustments on scheme assets | 5% | 3% |
| Net deficit in scheme | (79,349) | (78,549) |

## FKI Limited

## Notes to the financial statements
## Year ended 31 December 2011

**Mortality assumptions**

The mortality assumptions for the plan at 31 December 2011 are based on 90% of the heavy Self Administered Pension Scheme (SAPs) tables, reflecting the scheme membership being largely employed in the industrial sector Future improvements are in line with 80% (60% for women) of the long cohort, subject to a minimum underpin of 1% p a

The assumed life expectancy on retirement at age 65 are

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Retiring today | | |
| Males | 85 30 | 85 20 |
| Females | 88 70 | 88 60 |
| Retiring in 20 years | | |
| Males | 87 80 | 87 70 |
| Females | 91 00 | 90 90 |

Amounts recognised in the financial statements in respect of the defined benefit scheme

| | Year ended 31 December 2011 £'000 | Year ended 31 December 2010 £'000 |
|---|---|---|
| In arriving at operating loss | | |
| Current service cost | 500 | 3,517 |
| | 500 | 3,517 |

| | Year ended 31 December 2011 £'000 | Year ended 31 December 2010 £'000 |
|---|---|---|
| Included within finance costs | | |
| Interest cost | 34,200 | 35,000 |
| Expected return on assets | (30,000) | (29,600) |
| | 4,200 | 5,400 |

| | Year ended 31 December 2011 £'000 | Year ended 31 December 2010 £'000 |
|---|---|---|
| Included within the Statement of Total Recognised Gains and Losses | | |
| Actuarial losses on scheme liabilities | (45,200) | (8,600) |
| Actuarial gains on scheme assets | 30,600 | 17,600 |
| | (14,600) | 9,000 |
| Deferred tax asset on scheme liabilities | 6,000 | 2,520 |
| | (8,600) | 11,520 |

The remaining known history of experience adjustments is as follows

| | 31 December 2009 £'000 | 31 December 2008 £'000 |
|---|---|---|
| Present value of defined benefit obligations | (618,857) | (520,300) |
| Fair value of scheme assets | 508,762 | 462,700 |
| Net deficit | (110,095) | (57,600) |
| Experience adjustments on scheme liabilities | (85,500) | (2,400) |
| Experience adjustments on scheme assets | 25,400 | (58,200) |

# Notes to the financial statements
# Year ended 31 December 2011

**17. Related party transactions**

The Company is a wholly owned subsidiary of Melrose PLC, the consolidated accounts of which are publicly available Accordingly, the Company has taken advantage of the exemption in FRS 8 from disclosing transactions with members or investees of the Melrose Group for which 100% of the ownership rests within the Melrose Group

**18. Ultimate parent company**

The Directors regard Melrose PLC, a company incorporated in Great Britain and registered in England and Wales, as the Company's ultimate parent undertaking and controlling party for the year ended 31 December 2011 The immediate parent company is Melrose PLC, which is registered in Great Britain

The smallest and largest group into which the results of the company are consolidated is that headed by Melrose PLC Copies of the financial statements are available from the Company Secretary, Melrose PLC, Precision House, Arden Road, Alcester, Warwickshire, B49 6HN