

Carl Zeiss Limited

**Annual report and financial statements
for the year ended 30 September 2016**



Carl Zeiss Limited

Company information

Directors	P Adderley J F Wehmer T Spitzenpfeil
Company secretary	D Spencer
Registered number	00542141
Registered office	509 Coldham's Lane Cambridge Cambridgeshire CB1 3JS
Independent auditor	Ernst & Young LLP One Cambridge Business Park Cambridge CB4 0WZ

Carl Zeiss Limited

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Carl Zeiss Limited

Strategic report for the year ended 30 September 2016

The directors present their strategic report of the company for the year ended 30 September 2016.

Business review

The principal activity of the company is the sale, distribution and servicing in the United Kingdom of optical products and scientific and analytical instrumentation from Carl Zeiss group companies around the world.

Revenue growth was achieved as a result of organic growth from our traditional product portfolio and increasing market share in existing and emerging market segments, as a result of acquisitions of companies by the Carl Zeiss Group.

During the year under review, we continued to improve on our organizational structure, operating efficiency and productivity. This has allowed us to make structural adjustments in certain areas and to make further investments, including the expansion of our workforce.

Key performance indicators

	Actual year ended 30 September 2016	Actual year ended 30 September 2015	Budget for year ended 30 September 2016
Revenue (£'000)	72,372	67,097	76,145
Adjusted operating expenses ratio (%)	16	18	17
Trade receivables in revenue (%)	18	17	19
Inventory in revenue (%)	11	11	10

The directors consider the key performance indicators (KPIs) of the company to be revenue, adjusted operating expense ratio (OPEX), receivables in revenue and inventory in revenue and regularly monitor these against the budget and prior year.

The KPIs disclosed above represent the measures used to assess the performance of the company based on divisional reporting criteria and are therefore (with the exception of revenue) not based directly on the figures disclosed for statutory purposes.

Principal risks and uncertainties

The company considers its principal risk to be competitive risk. This was mitigated by the Carl Zeiss corporate policy of continuous product development, investment in new technologies and company acquisitions. This is backed up in the UK market by the provision of added value service to our customers, providing fast response times and a close business relationship.

The impact of the decision in the Referendum Vote of 23 June 2016 to leave the European Union, or "Brexit", is likely to have some impact on the business. In the short term, this is likely to be felt as a result of increased exchange rate volatility but the longer term impact remains uncertain. Close attention will be paid by management to the progress, development and outcomes of the UK's negotiations with the EU.

Carl Zeiss Limited

Strategic report for the year ended 30 September 2016

Financial risk management

Financial risk is primarily due to exchange rate exposure and customer credit exposure. To mitigate exchange rate exposure, purchase contracts are primarily invoiced in Sterling. Credit risk is minimised by granting credits to the guidelines of Dunn and Bradstreet and the regular review thereof, coupled with robust debtor management policy.

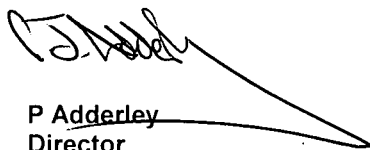
Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The company aims to mitigate liquidity risk by managing cash generation by its operations, applying cash collection targets throughout the company. The company is also party to group cash pool arrangements.

Cash flow risk is the risk of exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability such as future interest payments on a variability rate debt. The company does not consider this to be a significant risk.

This report was approved by the board on

30/03

2017 and signed on its behalf.


P Adderley
Director

Carl Zeiss Limited

Directors' report for the year ended 30 September 2016

The directors present their report and the audited financial statements of the company for the year ended 30 September 2016.

In preparing these financial statements the directors have adopted Financial Reporting Standard 101 (FRS 101). The impact of adoption of FRS 101 is shown in note 25 to these financial statements.

Results and dividends

The profit for the year, after taxation, amounted to £3,471,000 (2015: £3,814,000).

Dividends of £2,300,000 were paid during the year (2015: £1,000,000).

The directors recommend the payment of a final dividend of £3,700,000 (2015: £2,300,000).

Future developments

The financial statements highlight the overall health of the business and provide a solid foundation for the future, offering us an excellent platform for ongoing development.

With our balanced portfolio of products across different sectors, we are well positioned in each of the markets in which we operate and it is our assumption that these markets will continue to grow in the future.

Going concern

The financial statements have been prepared on a going concern basis as, after making appropriate enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future.

Directors

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

P Adderley
L Monz (resigned 1 January 2017)
H Klaiber (resigned 15 March 2017)
J F Wehmer
T Spitzenpfeil (appointed 1 January 2017)

Financial instruments

The company finances its activities with cash. Other financial assets and liabilities, such as trade debtors and trade creditors arise directly from the company's operating activities.

Financial instruments give rise to foreign currency risk, credit risk and liquidity risk. Information on company management of these risks can be found in the strategic report.

Carl Zeiss Limited

Directors' report for the year ended 30 September 2016

Directors' responsibilities statement

The directors are responsible for preparing the strategic report, the directors' report and the financial statements in accordance with applicable UK law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 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 then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards, including FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 101 used in the preparation of financial statements; and
- prepare the audited 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.

Qualifying third party indemnity provisions

The company has granted an indemnity to one or more of its directors 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 remains in force as at the date of approving the directors' report.

Disclosure of information to auditor

Each of the persons who are directors at the time when this directors' report is approved has confirmed that:

- so far as that director is aware, there is no relevant audit information of which the company's auditor is unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Carl Zeiss Limited

Directors' report for the year ended 30 September 2016

Auditor

The auditor, Ernst & Young LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on

30/03

2017 and signed on its behalf.



P Adderley
Director

Independent auditor's report to the members of Carl Zeiss Limited

We have audited the financial statements of Carl Zeiss Limited for the year ended 30 September 2016, which comprise the profit and loss account, the statement of comprehensive income, the balance sheet, the statement of changes in equity and the related notes 1 to 25. The financial reporting framework that has been applied in their preparation is applicable law and the United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101).

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 on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's 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 strategic report and the directors' report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 September 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 'Reduced Disclosure Framework'; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditor's report to the members of Carl Zeiss Limited

Matters on which we are required to report by exception

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

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

Ernst & Young LLP

Rachel Wilden (Senior Statutory Auditor)
for and on behalf of

Ernst & Young LLP

Statutory auditor

Cambridge

Date: *4 April 2017*

Carl Zeiss Limited

Profit and loss account for the year ended 30 September 2016

	Note	2016 £000	As restated 2015 £000*
Turnover	4	72,372	67,097
Cost of sales		(55,873)	(49,569)
Gross profit		16,499	17,528
Distribution costs		(312)	(234)
Administrative expenses		(11,893)	(12,493)
Operating profit	5	4,294	4,801
Interest receivable	8	32	34
Interest payable	9	(3)	-
Other finance costs	10	-	-
Profit on ordinary activities before tax		4,323	4,835
Tax on profit on ordinary activities	11	(852)	(1,021)
Profit for the financial year		3,471	3,814

The notes on pages 12 to 31 form part of these financial statements.

* Comparative information

Although there is no change to the profit for the financial year ended 30 September 2015, the classification of several expenses has been amended.

Cost of sales has increased by £404,000, due to the reclassification of £164,000 of other operating supplies from administrative expenses and £240,000 of inbound logistics from distribution costs.

Distribution costs has decreased by £414,000, due to the reclassification of £240,000 of inbound logistics to cost of sales, £72,000 of marketing transportation and £102,000 of insurance to administrative expenses.

Administrative expenses has increased by £10,000, due to the reclassification of £164,000 of other operating supplies to cost of sales, £72,000 of marketing transportation and £102,000 of insurance from distribution costs.

Carl Zeiss Limited

Statement of comprehensive income for the year ended 30 September 2016

	Note	2016 £000	2015 £000
Profit for the financial year		<u>3,471</u>	<u>3,814</u>
Other comprehensive income:			
Actuarial loss related to pension scheme	21	(2,458)	(2,199)
Pension surplus not recognised	21	2,458	1,669
Tax credit in respect of the prior years		-	109
Total other comprehensive income		<u>-</u>	<u>(421)</u>
Total comprehensive income for the year		<u><u>3,471</u></u>	<u><u>3,393</u></u>

The notes on pages 12 to 31 form part of these financial statements.

**Balance sheet
as at 30 September 2016**

	Note	£000	2016 £000	2015 £000
Fixed assets				
Tangible assets	13		1,280	1,292
Current assets				
Stocks	14	5,840		6,510
Debtors	15	23,789		21,573
Cash at bank and in hand		2,526		497
		<u>32,155</u>		<u>28,580</u>
Creditors: amounts falling due within one year	16	(17,954)		(16,676)
Net current assets			<u>14,201</u>	<u>11,904</u>
Total assets less current liabilities			<u>15,481</u>	<u>13,196</u>
Creditors: amounts falling due after more than one year	17		(4,475)	(3,616)
			<u>11,006</u>	<u>9,580</u>
Provisions for liabilities				
Deferred taxation	18	-		(31)
Provisions	19	(922)		(636)
			<u>(922)</u>	<u>(667)</u>
Net assets			<u>10,084</u>	<u>8,913</u>
Capital and reserves				
Called up share capital	20		1,570	1,570
Retained earnings			8,514	7,343
Total equity			<u>10,084</u>	<u>8,913</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 30/03 2017.


P Adderley
Director

The notes on pages 12 to 31 form part of these financial statements.

Carl Zeiss Limited

Statement of changes in equity for the year ended 30 September 2016

	Called up share capital	Retained earnings	Total equity
	£000	£000	£000
At 1 October 2014	1,570	4,950	6,520
Profit for the financial year	-	3,814	3,814
Actuarial loss on pension scheme	-	(421)	(421)
Dividends	-	(1,000)	(1,000)
	<hr/>	<hr/>	<hr/>
At 1 October 2015	1,570	7,343	8,913
Profit for the financial year	-	3,471	3,471
Dividends	-	(2,300)	(2,300)
	<hr/>	<hr/>	<hr/>
At 30 September 2016	<u>1,570</u>	<u>8,514</u>	<u>10,084</u>

Retained earnings

Retained earnings refer to the amount of net earnings, less amounts paid out as dividends, retained by the company to be reinvested in its core business.

The notes on pages 12 to 31 form part of these financial statements.

Carl Zeiss Limited

Notes to the financial statements for the year ended 30 September 2016

1. General information

The principal activity of Carl Zeiss Limited ("the company") is the sale, distribution and servicing in the United Kingdom of optical products and scientific and analytical instrumentation.

The company has prepared its financial statements in sterling and all values are rounded to the nearest thousand pounds except where otherwise indicated.

The company is a private company limited by shares and is incorporated and domiciled in England. The address of its registered office is 509 Coldham's Lane, Cambridge, Cambridgeshire, CB1 3JS.

2. Summary of significant accounting policies

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

The company has adopted FRS 101 in these financial statements. Details of the transition to FRS 101 are disclosed in note 25.

2.1 Basis of preparation of financial statements

The financial statements have been prepared on a going concern basis under the historical cost convention, in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) and the Companies Act 2006.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of:
 - paragraph 39(c) of IAS 1 'comparative information requirements in respect of the beginning of the earliest comparative period';
 - paragraph 79(a)(iv) of IAS 1;
 - paragraph 73(e) of IAS 16 Property, plant and equipment;
- The following paragraphs of IAS 1, 'Presentation of financial statements':
 - 10(d) (statement of cash flows);
 - 10(f) (a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in the financial statements);
 - 134 to 136 (capital management disclosures);
- IAS 7 'Statement of cash flows';
- Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but not yet effective);

**Notes to the financial statements
for the year ended 30 September 2016**

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation of financial statements (continued)

- Paragraph 17 of IAS 24 'Related party disclosures' (key management compensation);
- The requirements in IAS 24 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group which are wholly owned within the group;
- IFRS 7, 'Financial Instruments: Disclosures'; and
- Paragraphs 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 Impairment of assets.

For the purposes of FRS 101 reduced disclosure exemptions, equivalent disclosures are included in the publicly available consolidated financial statements of Carl Zeiss AG. See note 24 for details.

2.2 Turnover

Turnover is measured at the fair value of the consideration received or receivable and represents the amount receivable for goods supplied or services rendered, net of returns, discounts and rebates allowed by the company and value added taxes.

Sale of goods are recognised as at the date of delivery. Service related sales are recognised when the related work is performed or, in the case of long-term contracts, on a percentage completion basis.

2.3 Operating leases

Rentals paid under operating leases are charged to the profit and loss account on a straight line basis over the term of the lease.

**Notes to the financial statements
for the year ended 30 September 2016**

2. Summary of significant accounting policies (continued)

2.4 Employee benefits

The company provides a range of benefits to employees, including paid holiday arrangements, and defined benefit and defined contribution pension plans.

(i) Short term benefits

Short term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the period in which the service is received.

(ii) Defined contribution pension plan

The company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. Once the contributions have been paid the company has no further payments obligations. The contributions are recognised as an expense in the profit and loss account when they fall due. Amounts not paid are shown in accruals as a liability in the balance sheet. The assets of the plan are held separately from the company in independently administered funds.

(iii) Defined benefit pension plan

The company operates a defined benefit plan for certain employees. A defined benefit plan defines the pension benefit that the employee will receive on retirement, usually dependent upon several factors including but not limited to age, length of service and remuneration. A defined benefit plan is a pension plan that is not a defined contribution plan.

The asset/liability recognised in the balance sheet in respect of the defined benefit plan is the fair value of plan assets at the balance sheet date (if any) out of which the obligations are to be settled less the present value of the defined benefit obligation at the end of the balance sheet date.

The defined benefit obligation is calculated using the projected unit credit method. Annually the company engages independent actuaries to calculate the obligation. The present value is determined by discounting the estimated future payments using market yields on high quality corporate bonds that are denominated in sterling and that have terms approximating to the estimated period of the future payments ('discount rate').

The fair value of plan assets is measured in accordance with the FRS 101 fair value hierarchy and in accordance with the company's policy for similarly held assets. This includes the use of appropriate valuation techniques.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income. These amounts together with the return on plan assets, less amounts included in net interest, are disclosed as other comprehensive income.

The cost of the defined benefit plan, recognised in the profit and loss account as employee costs, except where included in the cost of an asset, comprises:

- a) the increase in net pension benefit liability arising from employee service during the period; and
- b) the cost of plan introductions, benefit changes, curtailments and settlements.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is recognised in the profit and loss account as a 'other finance expense/income'.

**Notes to the financial statements
for the year ended 30 September 2016**

2. Summary of significant accounting policies (continued)

2.5 Foreign currencies

(i) Functional and presentational currency

The company's functional and presentational currency is the Pound sterling.

(ii) Transactions and balances

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date.

Transactions in foreign currencies are translated into sterling at the rate ruling on the date of the transaction.

Exchange gains and losses are recognised in the profit and loss account.

2.6 Interest receivable

Interest income is recognised in the profit and loss account using the effective interest method.

2.7 Interest payable

Interest payable is recognised in the profit and loss account over the term of the debt using the effective interest method.

2.8 Current and deferred tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company operates and generates taxable income. Management periodically evaluates positions taken in tax returns in respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised on temporary timing differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

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Notes to the financial statements for the year ended 30 September 2016

2. Summary of significant accounting policies (continued)

2.9 Tangible fixed assets

Tangible assets are recognised at cost and subsequently stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value.

The estimated useful lives range as follows:

Leasehold improvements	- 10 years or the remaining period of the lease if sooner
Plant and equipment	- 3 - 10 years
Fixtures, fittings, tools and equipment	- 5 - 10 years

Depreciation is charged to the profit and loss account.

2.10 Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition. Raw materials, consumables and goods for resale comprise of purchase cost on a first-in, first-out basis. Work in progress and finished goods comprise of the cost of direct materials and labour plus attributable overheads, based on a normal level of activity.

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion or disposal. Provision is made for obsolete, slow-moving and defective items where appropriate.

2.11 Financial instruments

(i) Financial assets

Basic financial assets, including trade debtors, amounts owed by group undertakings and other debtors shown in note 15 are initially recognised at transaction price.

Such assets are subsequently carried at amortised cost using the effective interest method and at the end of each reporting period are assessed for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the profit and loss account.

(ii) Financial liabilities

Basic financial liabilities, including trade creditors, amounts owed to group undertakings and other creditors shown in note 16 are initially recognised at transaction price and subsequently measured at amortised cost.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

(iii) Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Carl Zeiss Limited

Notes to the financial statements for the year ended 30 September 2016

2. Summary of significant accounting policies (continued)

2.12 Provisions for liabilities

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

Estimated future costs of the warranty offered on instrument system sales are charged to the profit and loss account as the revenues derived from the related instrument system sales are recognised.

2.13 Called up share capital

Ordinary shares are classified as equity.

2.14 Dividends

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders at an annual general meeting. Dividends on shares recognised as liabilities are recognised as expenses and classified within interest payable.

Carl Zeiss Limited

Notes to the financial statements for the year ended 30 September 2016

3. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(i) Taxation

Determining income tax provisions involves judgements on the tax treatment of certain transactions. Deferred tax is recognised on tax losses not yet used on temporary differences where it is probable that there will be taxable income against which these can be offset. See note 11.

(ii) Useful economic lives of tangible assets

The annual depreciation charge for tangible assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See note 13 for the carrying amount of the tangibles, and notes 2.9 for the useful economic lives for each class of assets.

(iii) Defined benefit pension scheme

The company has an obligation to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including; life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension asset/liability in the balance sheet. The assumptions reflect historical experience and current trends. See note 21 for the disclosures relating to the defined benefit pension scheme.

(iv) Provisions

The company makes an estimate of the present value of the warranty provision which relates to estimated future costs of the warranty offered on instrument system sales. The company assesses the valuation at each reporting date. See note 19.

4. Turnover

Turnover is primarily derived from activities within the United Kingdom and Ireland. The amount of turnover derived from other countries is not material.

An analysis of turnover by nature is shown below:

	2016 £000	2015 £000
Sale of goods	59,189	54,214
Services	13,183	12,883
	<u>72,372</u>	<u>67,097</u>

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Notes to the financial statements for the year ended 30 September 2016

5. Operating profit

The operating profit is stated after charging/(crediting):

	2016 £000	2015 £000
Depreciation of tangible fixed assets	371	478
Auditor's remuneration - statutory audit of the financial statements of the company	21	21
Operating lease rentals	919	916
Net (profit)/loss on foreign exchange	(100)	74
Loss on disposal of tangible fixed assets	35	123
Cost of stocks recognised as an expense	<u>47,597</u>	<u>42,619</u>

6. Employees

Staff costs, including directors' remuneration, were as follows:

	2016 £000	2015 £000
Wages and salaries	10,531	9,932
Social security costs	1,087	1,039
Cost of defined contribution pension scheme	704	628
	<u>12,322</u>	<u>11,599</u>

The average monthly number of employees, including the directors, during the year was as follows:

	2016 No.	2015 No.
Sales	111	108
Service	85	73
Administration	13	11
	<u>209</u>	<u>192</u>

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Notes to the financial statements for the year ended 30 September 2016

7. Directors' remuneration

	2016 £000	2015 £000
Directors' emoluments	234	262
Directors' pension costs - defined contribution scheme	17	23
	<u>251</u>	<u>285</u>

The aggregate emoluments of the highest paid director was £234,000 (2015: £262,000) and company pension contributions of £17,000 (2015: £23,000) were made to a defined contribution scheme on his behalf. During the year, one director (2015: one) participated in a defined contribution pension scheme. No director was a member of a defined benefit scheme in either the current or prior year.

One director was remunerated by the company. All other directors are employed by other group undertakings and their remuneration for qualifying services to the company is deemed to be negligible so that they would not be able to allocate any remuneration received to Carl Zeiss Limited.

8. Interest receivable

	2016 £000	2015 £000
Interest receivable from group companies	32	28
Other interest receivable	-	6
	<u>32</u>	<u>34</u>

9. Interest payable

	2016 £000	2015 £000
Other interest payable	3	-
	<u>3</u>	<u>-</u>

10. Other finance costs

	2016 £000	2015 £000
Expected return on pension scheme assets	1,407	1,437
Interest on pension scheme liabilities	(1,407)	(1,437)
	<u>-</u>	<u>-</u>

Carl Zeiss Limited

Notes to the financial statements for the year ended 30 September 2016

11. Taxation

	2016 £000	2015 £000
Corporation tax		
Current tax on profits for the year	922	950
Adjustments in respect of previous periods	-	5
Total current tax	922	955
Deferred tax		
Current year	(58)	67
Adjustment in respect of prior periods	(14)	-
Effect of changes in tax rates	2	(1)
Total deferred tax	(70)	66
Taxation on profit on ordinary activities	852	1,021

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2015: lower than) the standard rate of corporation tax in the UK of 20% (2015: 20.5%). The differences are explained below:

	2016 £000	2015 £000
Profit on ordinary activities before tax	4,323	4,835
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2015: 20.5%)	865	991
Effects of:		
Adjustments in respect of prior periods	(14)	6
Expenses not deductible for tax purposes	(1)	25
Tax rate changes	2	(1)
Total tax charge for the year	852	1,021

Factors that may affect future tax charges

A change to the UK corporation tax rate was announced in the Chancellor's Budget on 16 March 2016. The change announced is to reduce the main rate to 17% from 1 April 2020. Changes to reduce the UK corporation tax rate to 19% from 1 April 2017 and to 18% from 1 April 2020 had already been substantively enacted on 26 October 2015.

The further reduction of corporation tax to 17% (effective from April 2020, to replace the previous 18% rate) was also substantively enacted at the balance sheet date.

Carl Zeiss Limited

Notes to the financial statements for the year ended 30 September 2016

12. Dividends

	2016 £000	2015 £000
Dividends paid on ordinary shares	2,300	1,000

13. Tangible fixed assets

	Leasehold improvement £000	Plant and machinery £000	Fixtures, fittings, tools and equipment £000	Total £000
Cost				
At 1 October 2015	460	2,139	459	3,058
Additions	-	248	151	399
Disposals	-	(224)	(5)	(229)
At 30 September 2016	460	2,163	605	3,228
Depreciation				
At 1 October 2015	383	1,105	278	1,766
Charge for the year	30	237	104	371
Disposals	-	(189)	-	(189)
At 30 September 2016	413	1,153	382	1,948
Net book value				
At 30 September 2016	47	1,010	223	1,280
At 30 September 2015	77	1,034	181	1,292

14. Stocks

	2016 £000	2015 £000
Finished goods and goods for resale	5,840	6,510
	5,840	6,510

There is no significant difference between the replacement cost of stocks and their carrying amounts.

Stocks are stated after provisions for impairment of £2,257,000 (2015: £1,247,000).

Carl Zeiss Limited

Notes to the financial statements for the year ended 30 September 2016

15. Debtors

	2016 £000	2015 £000
Due after more than one year		
Finance lease receivables	297	92
Deferred tax asset	40	-
	<u>337</u>	<u>92</u>
Due within one year		
Trade debtors	14,820	13,871
Amounts owed by group undertakings	8,144	7,363
Other debtors	88	73
Prepayments and accrued income	235	135
Corporation tax recoverable	38	-
Finance lease receivables	127	39
	<u>23,789</u>	<u>21,573</u>

Amounts owed by group undertakings are unsecured, interest free and repayable on demand.

Trade debtors are stated after provisions for impairment of £256,000 (2015: £135,000).

16. Creditors: Amounts falling due within one year

	2016 £000	2015 £000
Trade creditors	424	409
Amounts owed to group undertakings	7,152	6,124
Amounts owed to parent undertaking	465	-
Other creditors	231	272
Accruals	2,950	2,820
Payments received on account	670	1,159
Corporation tax	-	112
Taxation and social security	854	992
Deferred income	5,208	4,788
	<u>17,954</u>	<u>16,676</u>

Amounts owed to group undertakings are unsecured, interest free and repayable on demand.

Trade creditors are non-interest bearing and normally settled on 30 day terms. Other creditors are non-interest bearing.

Carl Zeiss Limited

Notes to the financial statements for the year ended 30 September 2016

17. Creditors: Amounts falling due after more than one year

	2016 £000	2015 £000
Other creditors	2	-
Accruals and deferred income	4,473	3,616
	<u>4,475</u>	<u>3,616</u>

18. Deferred taxation

	2016 £000
At beginning of year	(31)
Credited to the profit and loss account	71
At end of year	<u>40</u>

The deferred taxation balance is made up as follows:

	2016 £000	2015 £000
Fixed assets	(21)	(57)
Temporary trading differences	61	26
Deferred tax asset/(liability)	<u>40</u>	<u>(31)</u>

Carl Zeiss Limited

Notes to the financial statements for the year ended 30 September 2016

19 Provisions

	Warranty £000
At 1 October 2015	636
Additions in year	918
Utilised in year	(632)
At 30 September 2016	922

The warranty provision is a general provision based on 1% of system revenues. There are uncertainties about the amount or timing of those outflows.

20. Share capital

	2016 £000	2015 £000
Allotted, called up and fully paid		
1,570,000 (2015: 1,570,000) Ordinary shares of £1 each	1,570	1,570

There have been no issues or cancellations of share capital during the year.

Carl Zeiss Limited

Notes to the financial statements for the year ended 30 September 2016

21. Pension commitments

Defined contribution scheme

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge represents contributions payable by the company to the fund and amounted to £704,000 (2015: £628,000). There are no outstanding or prepaid contributions at the year end (2015: £Nil).

Defined benefit scheme

The company also operates a defined benefit pension scheme providing benefits based on final pensionable pay. On 1 October 2012, the scheme ceased accrual, although active members at that date retain the link to final salary. The latest full actuarial valuation was carried out at 30 September 2015 and was updated for IAS 19 purposes to 30 September 2016 by a qualified actuary.

The scheme is a registered pension scheme with a funded defined benefit section under which benefit accrual ceased with effect from 30 September 2012. The scheme operates under the regulatory framework of the Pensions Act 2004.

Under the scheme a trustee company has primary responsibility for governance of the scheme. Benefit payments are made from trustee administered funds. Scheme assets are held under trusts which are governed by UK regulation. Responsibility for governance of the scheme, including setting contribution rates, lies jointly with the company and the trustee. Investment decisions are the responsibility of the trustee only.

Pension contributions are determined with the advice of an independent qualified actuary on the basis of annual valuations using the projected unit credit method. The projected unit credit method is an accrued benefits valuation method in which the scheme liabilities make allowance for future earnings. Scheme assets are stated at their market values at the respective balance sheet dates and overall expected rates of return are established by applying published brokers forecasts to each category of scheme assets.

Through its defined benefit pension plan, the company is exposed to a number of risks, the most significant of which are detailed below:

(i) Asset volatility

The liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets underperform this yield, this will create a deficit. The Scheme holds a significant proportion of growth assets (diversified growth fund) which are expected to outperform corporate bonds in the long-term while providing volatility and risk in the short term. The allocation to growth assets is monitored such that it is suitable for the Scheme's long term objectives.

(ii) Changes in bond yields

A decrease in corporate bond yields will increase the Scheme's liabilities, although this will be partially offset by an increase in the value of the Scheme's bond holdings. As noted above, the Scheme's investment in liability driven investments ("LDI") partially mitigates this risk.

(iii) Inflation risk

The majority of the Scheme's benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increase are in place to protect against extreme inflation). As noted above, the Scheme's investment in LDI partially mitigates this risk.

(iv) Life expectancy

The majority of the schemes obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liabilities.

Carl Zeiss Limited

Notes to the financial statements for the year ended 30 September 2016

21. Pension commitments (continued)

Reconciliation of present value of plan liabilities and assets are shown below:

	2016 £000	2015 £000
Liabilities		
At the beginning of the year	39,199	37,436
Interest cost	1,407	1,437
Experience (gain)/loss on liabilities	(484)	278
Loss on changes in financial assumptions	9,403	1,002
Loss on changes in demographic assumptions	(400)	-
Decrease in secured pensioners value due to scheme experience	(245)	(234)
Benefits paid	(1,810)	(720)
At the end of the year	47,070	39,199

Composition of plan assets:

	2016 £000	2015 £000
Bonds	19,328	16,800
Equities	17,396	15,146
Property	6,574	5,643
Annuities	4,622	4,709
Cash	34	127
Total	47,954	42,425

Within the scheme's plan assets, only equities are quoted on active markets.

The scheme does not invest in any financial instruments or properties held by the company.

	2016 £000	2015 £000
Assets		
At the beginning of the year	42,425	41,663
Interest income	1,523	2,105
Return on assets excluding interest income	6,061	(919)
Employer contributions	-	530
Decrease in secured pensioners value due to scheme experience	(245)	(234)
Benefits paid	(1,810)	(720)
At the end of the year	47,954	42,425

There are no further employer contributions to the defined benefit pension scheme planned after 30 September 2015.

Carl Zeiss Limited

Notes to the financial statements for the year ended 30 September 2016

21. Pension commitments (continued)

	2016 £000	2015 £000
Fair value of plan assets	47,954	42,425
Present value of plan liabilities	(47,070)	(39,199)
Surplus not recognised	(884)	(3,226)
Net pension scheme assets	-	-

The amounts recognised in the profit or loss account are as follows:

	2016 £000	2015 £000
Net interest on pension surplus	116	668
Asset ceiling limitation	(116)	(668)
	-	-

The amounts recognised in the statement of comprehensive income are as follows:

	2016 £000	2015 £000
Gain/(loss) on asset return	6,061	(919)
Experience gain/(loss)	484	(278)
Loss on changes in financial assumptions	(9,403)	(1,002)
Loss on changes in demographic assumptions	400	-
Pension surplus not recognised	2,458	1,669
	-	(530)

A reconciliation of the recognised surplus from the beginning to the end of the year is shown below:

	2016 £000	2015 £000
At the beginning of the year	-	-
Amount recognised in the profit and loss account	-	-
Actuarial loss recognised in other comprehensive income	-	(530)
Employer contributions	-	530
At the end of the year	-	-

Carl Zeiss Limited

Notes to the financial statements for the year ended 30 September 2016

21. Pension commitments (continued)

Principal actuarial assumptions at the balance sheet date (expressed as weighted averages):

	2016 %	2015 %
Discount rate	2.4	3.7
Inflation	3.1	3.1
Inflation with a maximum of 5% p.a.	3.4	3.4
Inflation with a maximum of 2.5% p.a.	2.1	2.1
Salary increases	4.1	4.1
The mortality assumptions used were as follows (years):		
- for a male aged 65 now	26.8	26.9
- at 65 for a male aged 45 now	28.2	28.3
- for a female aged 65 now	28.9	29
- at 65 for a female member aged 45 now	30	30.2

Amounts for the current and previous four periods are as follows:

Defined benefit pension schemes

	2016 £000	2015 £000	2014 £000	2013 £000	2012 £000
Defined benefit obligation	(47,070)	(39,199)	(37,436)	(35,174)	(31,511)
Scheme assets	47,954	42,425	41,663	38,750	35,718
Surplus	884	3,226	4,227	3,576	4,207
Experience adjustments on scheme liabilities	484	(277)	(1,821)	(143)	(291)
Experience adjustments on scheme assets	6,061	(919)	1,326	1,457	1,918
	6,545	(1,196)	(495)	1,314	1,627

Carl Zeiss Limited

Notes to the financial statements for the year ended 30 September 2016

21. Pension commitments (continued)

A sensitivity analysis in respect of the present value of the defined benefit obligation to a change in each significant actuarial assumption above, assuming the other assumptions remain constant, at the end of the reporting period is shown below:

	2016 £000
Discount rate at 2.9% (plus 0.5% pa)	43,105
Discount rate at 1.9% (less 0.5% pa)	51,444
Salary increase at 4.6% (plus 0.5% pa)	47,420
Salary increase at 3.6% (less 0.5% pa)	46,723
Mortality assumption plus 1 year	48,633
Mortality assumption less 1 year	45,447

22. Commitments under operating leases

At 30 September 2016 the company had future minimum lease payments, under non-cancellable operating leases as follows:

	2016 £000	2015 £000
Not later than 1 year	689	615
Later than 1 year and not later than 5 years	426	562
	<u>1,115</u>	<u>1,177</u>

The company has not entered into any other off-balance sheet arrangements.

23. Related party transactions

The company is exempt from disclosing related party transactions with companies that are wholly owned within the Carl Zeiss AG group.

24. Immediate parent undertaking and ultimate controlling party

The company's immediate parent undertaking is Carl Zeiss Beteiligungs GmbH, a company incorporated in Germany.

The ultimate parent undertaking and controlling party is Carl Zeiss Stiftung, a company incorporated in Germany.

The smallest and also largest group in which the results of the company are consolidated is that headed by Carl Zeiss AG.

The consolidated financial statements of Carl Zeiss AG are available to the public and may be obtained from their registered office at Carl-Zeiss-Strasse 22, 73447 Oberkochen, Germany.

Carl Zeiss Limited

Notes to the financial statements for the year ended 30 September 2016

25. First time adoption of FRS 101

This is the first year that the company has presented its results under FRS 101.

The last financial statements prepared under previous UK GAAP were for the year ended 30 September 2015. The date of transition to FRS 101 was 1 October 2014.

On transition to FRS101, the company has applied the requirements of paragraphs 6 to 33 of IFRS 1 'First time adoption of International Financial Reporting Standards'.

The company has taken advantage of the exemption available to recognise cumulative actuarial gains and losses on pensions and other post employment benefits in full in equity on the date of transition to IFRS. This is the same treatment as under previous UK GAAP.

Under previous UK GAAP, an expected return on defined benefit plan assets would be recognised in the profit and loss account. Under FRS 101 a net interest expense, based on the net defined benefit liability, would be recognised in the statement of comprehensive income. Due to the ceiling on the pension asset, there has been no change on transition.