

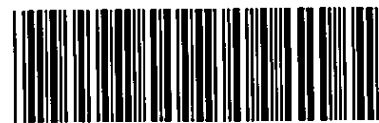
Registered Number 589650

Brush Transformers Limited

Report and Financial Statements

31 March 2007

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COMPANIES HOUSE

Brush Transformers Limited

Registered No 589650

Director

N Bamford

Secretary

A Ventrella

Auditors

Ernst & Young LLP
City Gate West
Toll House Hill
Nottingham
NG1 5FY

Registered office

Falcon Works
PO Box 7713
Meadow Lane
Loughborough
Leicestershire
LE11 1ZF

Director's report

The director presents the report and the audited financial statements for the year ended 31 March 2007

Principal activity and review of the business

The company's principal activity remained that of the manufacture and sale of transformers

Total turnover during the year ended 31 March 2007 was £27.7 million (2006 £23.3 million) representing an 19% trading increase. The operating loss for the year was £1.8 million compared to a loss of £0.3 million in 2006.

Contributory factors to the increased loss included increased pension contributions £0.8 million and lower margins. Finance costs for the year were £0.5 million (2006 £0.5 million) each year comprising £0.2 million on group loans and £0.3 million on bank loans and overdrafts.

The company entered into a Joint Venture agreement in December 2005 to acquire a 49% interest in a company based in Abu Dhabi. The joint venture had not traded as at 31 March 2007.

The company has adopted a process for the identification, assessment, treatment, monitoring and reporting of risk. This process helps support business objectives by linking into business strategy, identifying and reacting to emerging risks and developing cost effective solutions to risk exposures.

The company's products and manufacturing processes require a variety of raw materials including steel and copper. Any increase or volatility in the price of these commodities and energy together with shortages in supply can affect the company's performance. Purchasing policies and practices take into account and seek to mitigate the dependence on any single item and supplier where practicable.

In addition to the above, the company's involvement in global markets creates exposure to other risk factors that are both external and internal to the company. These risks include but are not limited to failure to comply with legislative and regulatory requirements including environmental and litigation risk, equipment failures, business continuity and the actions of customers and competitors. The company has, as previously described, implemented risk controls and loss mitigation plans but cannot give absolute assurance that such procedures will be effective in identifying or controlling each of the operational risks faced by the company.

The Director does not propose the payment of a dividend this year.

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.

Director and his interests

The director who served during the year ended 31 March 2007 and up to the date of this report was

N Bamford

The director had no interest in the shares of the company at 31 March 2007.

Director's report

Political and charitable contributions

There were no political or charitable donations during the year (2006 £nil)

Employment policies

The company has developed a wide range of voluntary practices and procedures for employee involvement appropriate to their own circumstances and needs. 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.

It is the policy of the company to give full and fair consideration to applications made by disabled persons for job vacancies, where particular job requirements are within their ability and, where possible, arrangements are made for the continuing employment of employees who have become disabled.

Suppliers payment policy

The company agrees terms and conditions for its business transactions with suppliers. Payment is made on those terms subject to the terms and conditions being met by the supplier.

Director's liabilities

FKI plc, the ultimate parent undertaking, has indemnified the director of the company against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 1985. Such qualifying third party indemnity provision was in force during the year.

Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

Director's statement as to disclosure of information to auditors

The director who was a member of the board at the time of approving the director's report is named on page 1. The director confirms that:

- To the best of his knowledge and belief, there is no information relevant to the preparation of his report of which the company's auditors are unaware, and
- The director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's auditors are aware of that information.

By order of the Board



N Bamford
Director

Date

8 November 2007

Statement of director's responsibilities in respect of the financial statements

The director is responsible for preparing the financial statements in accordance with applicable law and regulations

Company law requires the director to prepare financial statements for each financial year. Under that law the director has elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to 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 those financial statements, the director is required to

- select suitable accounting policies and then apply them consistently,
- make judgments and 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,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The director is responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and to enable him to ensure that the financial statements comply with the Companies Act 1985. He is also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report

to the members of Brush Transformers Limited

We have audited the company's financial statements for the year ended 31 March 2007 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 23. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 auditors' 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 director and auditors

The director's responsibilities for preparing the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Director's Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the director's report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding director's remuneration and other transactions is not disclosed.

We read the director's report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the director in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Independent auditors' report

to the members of Brush Transformers Limited (continued)

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2007 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the director's report is consistent with the financial statements

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
Nottingham

Date *13th November 2007*

Profit and loss account

for the year ended 31 March 2007

	Notes	2007 £000	2006 (as restated) £000
Turnover			
Continuing activities	2	27,686	23,270
Cost of sales		(27,053)	(22,003)
Gross profit		633	1,267
Distribution costs		(682)	(1,117)
Administrative expenses		(1,792)	(408)
Operating loss	3	(1,841)	(258)
Non operating exceptional items	4	–	435
Finance costs	5	(525)	(470)
Loss on ordinary activities before taxation		(2,366)	(293)
Tax on loss on ordinary activities	8	(80)	–
Loss for the financial year	17	(2,446)	(293)

Statement of Total Recognised Gains and Losses

	Notes	2007 £000	2006 £000
Loss for the financial year and total recognised gains and losses relating to the financial year	17	(2,446)	(293)
Prior year adjustment	1	4	
Total recognised gains and losses since last annual report		(2,442)	

Balance sheet

at 31 March 2007

		2007	2006
			(as restated)
	Notes	£000	£000
Fixed assets			
Tangible assets	9	1,410	990
Investments	10	139	—
		<u>1,549</u>	<u>990</u>
Current assets			
Stocks	11	5,154	5,616
Debtors	12	11,073	12,101
Cash at bank and in hand		—	8
		<u>16,227</u>	<u>17,725</u>
Creditors: amounts falling due within one year	13	(20,852)	(19,450)
		<u>(4,625)</u>	<u>(1,725)</u>
Net current liabilities			
		<u>(3,076)</u>	<u>(735)</u>
Total assets less current liabilities			
		<u>(3,420)</u>	<u>(1,035)</u>
Provisions for liabilities	14	(344)	(300)
		<u>(3,420)</u>	<u>(1,035)</u>
Net liabilities			
		<u>(3,420)</u>	<u>(1,035)</u>
Capital and reserves			
Called up share capital	16	—	—
Profit and loss account	17	(3,420)	(1,035)
		<u>(3,420)</u>	<u>(1,035)</u>
Shareholders' deficit	17	(3,420)	(1,035)
		<u>(3,420)</u>	<u>(1,035)</u>

Approved by the Board and signed on its behalf by



N Bamford
Director

Date 8 November 2007

Notes to the financial statements

at 31 March 2007

1. Accounting policies

Basis of preparation

The financial statements are prepared under the historical cost convention as modified for the valuation of financial instruments and in accordance with applicable UK accounting standards

Change in accounting policy

In preparing the financial statements, the company has adopted FRS 20 'Share Based Payment' in the current year. The adoption of FRS 20 has resulted in a change in accounting policy for share based payments. The change in accounting policy has reduced the profit reported in 2007 by £61,000 (2006 £70,000). There is no impact on the net assets as the amount charged to profit has been recorded within profit and loss reserve in accordance with FRS 20.

In preparing the financial statements, the company has adopted FRS 26 'Financial Instruments Measurement'. The adoption of FRS 26 has resulted in a change in accounting policy for financial instruments. The impact of the change in accounting policy is to increase net assets at 31 March 2007 by £nil and increase net assets at 31 March 2006 by £4,000. The profit for 2007 has been reduced by £4,000 (2006 reduced profit of £10,000). See note 17 for further details.

Going concern

These financial statements have been prepared on a going concern basis because the company's parent undertaking has agreed to provide financial support to enable the company to meet its debts as they fall due.

Cash flow statement

Under the provisions of FRS 1 'Cash Flow Statements' (revised 1996), the company has not prepared a cash flow statement because its ultimate parent undertaking, FKI plc, has prepared consolidated financial statements which include the financial statements of the company and which contain a cash flow statement.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost, less accumulated depreciation and any provision for impairment.

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset on a straight line basis over its expected useful life as follows:

Plant and machinery – heavy production	15 years
Plant and machinery – other	10 years
Office equipment	5 to 10 years
Motor vehicles	3 to 5 years

Investments

Investments are recorded at cost less any provision for impairment or diminution in value.

Stocks and works in progress

Stocks are stated at the lower of cost and net realisable value after making due allowance for any obsolete or slow moving items. Cost includes all costs incurred in bringing each product to its present location and condition, as follows:

Raw materials, consumables and goods for resale	–	purchase cost on a first-in, first-out basis
Work in progress and finished goods	–	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 and disposal.

Notes to the financial statements

at 31 March 2007

1. Accounting policies (continued)

Research and development

Development expenditure on clearly defined projects whose outcome can be assessed with reasonable certainty is capitalised and amortisation is commenced in the year the expenditure is incurred by reference to the lesser of the life of the project or three years. All other research and development expenditure is written off in the year in which it is incurred.

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 substantially 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.

Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward foreign currency contract. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rate of exchange ruling at the balance sheet date. All exchange differences are dealt with in the determination of profit for the financial year.

Leasing and hire purchase commitments

Assets obtained under hire purchase contracts and leases which result in the transfer to the company of substantially all the risks and rewards of ownership (finance leases) are capitalised as tangible fixed assets at the estimated present value of underlying lease payments and are depreciated over their expected useful lives or over the primary lease period, whichever is the shorter, in accordance with the above policy. The capital elements of future lease obligations are recorded as liabilities whilst the finance element of the rental payments are charged to the profit and loss account over the period of the lease or hire purchase contract so as to produce a constant rate of charge on the outstanding balance of the net obligation in each year.

Rentals paid under other leases (operating leases) are charged against income on a straight line basis over the lease term.

Notes to the financial statements

at 31 March 2007

1. Accounting policies (continued)

Defined benefit pension scheme

The company participated in a defined benefit pension scheme, which is funded, with the assets of the scheme held separately from those of the company, in separate trustee administered funds. The company's contributions are affected by the surplus/deficit in the scheme. However, it is not possible to identify the company's share of the underlying assets and liabilities in the scheme on a consistent and reasonable basis. Therefore, in accordance with the FRS 17 multi-employer exemption, the scheme is accounted for as if it were a defined contribution scheme.

The latest available information relating to the scheme and the implications for the company are detailed in the notes to the financial statements.

Defined contribution pension scheme

Pension costs for the company's defined contribution pension scheme are recognised within operating profit at an amount equal to the contributions payable to the scheme for the year. Any prepaid or outstanding contributions at the balance sheet date are recognised respectively as assets or liabilities within prepayments or accruals.

Derivative financial instruments and hedge accounting

The company uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financial and investment activities. The company does not use derivative financial instruments for speculative purposes.

Derivative financial instruments are recognised initially at cost. Subsequent to initial recognition they are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

The fair value of forward foreign exchange contracts is determined by reference to current forward exchange rates for contracts with similar maturity profiles.

For the purpose of hedge accounting, hedges are classified as either fair value hedges where they hedge the exposure to changes in the fair value of a recognised asset or liability, or cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

In relation to fair value hedges which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument at fair value is recognised immediately in the income statement. Any gain or loss on the hedged item attributable to the hedged risk is recognised as an adjustment to the carrying amount of the hedged item and recognised in the income statement. Where the adjustment is to the carrying amount of a hedged interest-bearing financial instrument, the adjustment is amortised to the net profit and loss such that it is fully amortised by maturity.

In relation to cash flow hedges (eg forward foreign currency contracts including cross currency swap contracts) to hedge firm commitments which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly to equity and the ineffective portion is recognised in net profit or loss.

When the hedged firm commitment results in the recognition of an asset or liability, then, at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability. For cash flow hedges that do not result in the recognition of an asset or a liability, the gains or losses that are recognised in equity are transferred to the income statement in the same year in which the hedged firm commitment affects the net profit and loss, for example when the future sale actually occurs.

Notes to the financial statements

at 31 March 2007

1. Accounting policies (continued)

Derivative financial instruments and hedge accounting (continued)

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the year.

Share based payments

Incentives in the form of shares, are provided to employees under share options and share award schemes that are established by the ultimate parent undertaking, FKI plc.

The fair value of these options and awards at their date of grant is determined by an external valuation and is charged to the profit and loss account over the relevant vesting periods. In valuing these transactions, no account is taken of any performance conditions other than conditions linked to the price of the shares of FKI plc. The value of the charge is adjusted to reflect expected and actual levels of options and awards vesting.

The company has taken advantage of the transitional provisions of FRS 20 and has applied FRS 20 only to equity settled awards granted after 7 November 2002 that had not vested on or before 1 April 2004.

2. Turnover and segmental information

Turnover, which is stated net of value added tax, represents amounts invoiced to customers.

Turnover and profit before taxation are derived from a single business segment being the principal activity of the company.

An analysis of turnover by geographical destination is as follows:

	2007 £000	2006 £000
United Kingdom	19,448	14,838
Middle East	6,271	4,796
Asia	661	1,392
Africa	391	456
Rest of Europe	121	254
Rest of the World	794	1,534
	<u>27,686</u>	<u>23,270</u>

3. Operating loss

Operating loss is stated after charging:

	2007 £000	2006 £000
Auditors' remuneration – audit of the financial statements	25	23
Depreciation	233	244
Operating lease rentals – plant and machinery	89	232
	<u></u>	<u></u>

Notes to the financial statements

at 31 March 2007

4. Non-operating exceptional items

	2007	2006
	£000	£000
Release of provision	–	264
Waiver of intergroup loans	–	171
	<u>–</u>	<u>435</u>

The release of provision in prior year relates to part of the provision made in respect of the closure of South Wales Transformers that is no longer required. The waiver of inter-group loans in the prior year followed a rationalisation process of the subsidiaries within the group. There was no tax impact relating to exceptional items.

5. Finance costs

	2007	2006
	£000	(as restated) £000
Interest on loans from ultimate parent undertaking	197	175
Interest on bank loans and overdrafts	319	290
Foreign exchange losses	9	5
	<u>525</u>	<u>470</u>

6. Director's remuneration

The director is remunerated by the ultimate parent undertaking. No emoluments received by the director arose from his office as director of the company (2006: £nil).

The director of the company is also a director of a number of companies within the FKI group. The director's services to the company do not occupy a significant amount of his time. As such the director does not consider that he has received any remuneration for his incidental services to the company for the years ended 31 March 2007 and 31 March 2006.

7. Staff costs

	2007	2006
	£000	(as restated) £000
Wages and salaries	5,627	5,124
Social security costs	515	476
Other pension costs	1,312	484
	<u>7,454</u>	<u>6,084</u>

Notes to the financial statements

at 31 March 2007

7. Staff costs (continued)

The average monthly number of persons (including the director) employed by the company during the year was as follows

	2007 <i>No</i>	2006 <i>No</i>
Production	205	189
Administration and management	10	9
Sales and distribution	17	16
	<u>232</u>	<u>214</u>

8. Tax on loss on ordinary activities

	2007 £000	2006 £000
UK corporation tax – adjustments in respect of prior years	5	–
Deferred taxation – current year (note 14)	75	–
	<u>80</u>	<u>–</u>

The tax assessed for the year is reconciled to the standard rate of corporation tax in the UK as explained below

	2007 £000	2006 (as restated) £000
Loss on ordinary activities before taxation	(2,366)	(293)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2006 – 30%)	<u>(710)</u>	<u>(88)</u>
<i>Effects of</i>		
Non-deductible expenses	37	–
Non-taxable income	–	(52)
Accelerated capital allowances	(107)	–
Group relief	780	140
Adjustments in respect of prior years	5	–
Current tax charge for the year	<u>5</u>	<u>–</u>

Notes to the financial statements

at 31 March 2007

9. Tangible fixed assets

	<i>Plant, equipment and vehicles £000</i>
Cost	
At 1 April 2006	8,262
Additions	757
Disposals	(1,113)
At 31 March 2007	7,906
Depreciation	
At 1 April 2006	7,272
Charge for the year	233
Disposals	(1,009)
At 31 March 2007	6,496
Net book value	
At 31 March 2007	1,410
At 31 March 2006	990

10. Investments

	<i>Joint ventures £000</i>
Cost and Net Book Value	
At 1 April 2006	—
Additions	139
At 31 March 2007	139

Details of the joint venture at 31 March 2007 are as follows

<i>Name</i>	<i>Nature of business</i>	<i>Country of incorporation or registration</i>
Brush Transformers (Gulf) llc	Transformer manufacturer	United Arab Emirates

The company entered into a Joint Venture agreement in December 2005 to acquire a 49% interest in a company based in Abu Dhabi. The joint venture had not traded as at 31 March 2007

Notes to the financial statements

at 31 March 2007

11. Stocks

	2007	2006
	£000	£000
Raw materials and consumables	1,144	1,694
Work in progress	6,037	4,594
	<u>7,181</u>	<u>6,288</u>
Less applicable payments on account	(2,027)	(672)
	<u>5,154</u>	<u>5,616</u>

There is no material difference between the balance sheet value of stocks and their replacement cost

12. Debtors

	2007	2006
	£000	(as restated) £000
Trade debtors	10,961	6,772
Amounts due from other group undertakings	–	5,301
Other debtors	9	16
Prepayments and accrued income	103	8
Derivative financial assets (note 15)	–	4
	<u>11,073</u>	<u>12,101</u>

13. Creditors: amounts falling due within one year

	2007	2006
	£000	£000
Bank overdraft	4,192	4,840
Trade creditors	10,930	4,838
Amounts due to parent and fellow subsidiary undertakings	4,620	8,914
Other taxes and social security costs	690	415
Other creditors	13	146
Accruals and deferred income	407	297
	<u>20,852</u>	<u>19,450</u>

The security for the bank overdraft is disclosed in note 21

Notes to the financial statements

at 31 March 2007

14. Provisions for liabilities

	<i>Deferred taxation £000</i>	<i>Closure provision £000</i>	<i>Total £000</i>
At 1 April 2006	-	300	300
Charge for the year	75	-	75
Utilised in the year	-	(31)	(31)
At 31 March 2007	75	269	344

The closure provision relates to the closure of the South Wales Transformers site

The deferred tax balance of £75,000 relates to accelerated capital allowances. At 31 March 2006, the company had an unrecognised deferred tax asset in respect of accelerated capital allowances of £32,000.

On 21 March 2007, the Chancellor of the Exchequer announced a number of corporate tax reforms effective from 1 April 2008. The main change applicable to the company is the corporation tax reduction from 30% to 28%. The legislative changes have more recently been enacted. If the changes had been enacted at the balance sheet date the deferred tax liability would have reduced by £5,000.

15. Derivative financial instruments

	<i>Derivative financial assets £000</i>	<i>Derivative financial liabilities £000</i>	<i>Net Derivative financial instruments £000</i>
At 31 March 2007			
Derivative financial instruments – current			
Forward foreign exchange contracts	-	-	-
	-	-	-
At 31 March 2006			
Derivative financial instruments – current			
Forward foreign exchange contracts	4	-	4
	4	-	4

At 31 March 2007 the Company held a number of forward foreign exchange contracts to hedge against the risk of exchange rate fluctuations affecting the value of committed sales and purchases denominated in foreign currencies. Those forward foreign exchange contracts were not accounted for as effective hedges within the meaning of FRS 26.

Notes to the financial statements

at 31 March 2007

15. Derivative financial instruments (continued)

Financial risk management

(a) Fair value of financial instruments

Fair value is defined as the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties and is calculated by reference to market prices discounted to current value. Where market values are not available, fair values have been calculated by discounting cash flows at prevailing rates translated at year end exchange rates.

	<i>Book value</i>	<i>Market value</i>	<i>Book value</i>	<i>Market value</i>
	<i>2007</i>	<i>2007</i>	<i>2006</i>	<i>2006</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Cash and short-term deposits	-	-	8	8
Derivative financial instruments				
Forward foreign exchange contracts	-	-	4	4
Net financial assets	-	-	12	12

Following the adoption of FRS 26 on 1 April 2006, for financial reporting purposes, cross-currency swaps and forward foreign exchange contracts are shown in the debtors and creditors notes as appropriate.

(b) Foreign currency risk

The Company uses forward foreign exchange contracts to hedge foreign currency exposures on committed, and occasionally forecast, receipts and payments in foreign currencies.

16. Share capital

	<i>2007</i>	<i>2006</i>
	<i>£</i>	<i>£</i>
<i>Authorised, allotted, called up and fully paid</i>		
100 ordinary shares of £1 each	100	100

17. Reconciliation of movements in shareholders' deficit and movement in reserves

	<i>Profit and loss account</i>
	<i>£000</i>
At 1 April 2005 – as previously reported	(826)
Prior year adjustment – FRS 26	14
Restated balance at 1 April 2005	(812)
Loss for the year	(293)
Share based payment credit	70
Restated balance at 31 March 2006	(1,035)
Loss for the year	(2,446)
Share based payment credit	61
At 31 March 2007	(3,420)

Notes to the financial statements

at 31 March 2007

18. Capital commitments

Amounts contracted but not provided in the financial statements amounted to £158,000 (2006 £146,000)

19. Pension arrangements

The company participates in a funded group defined benefit scheme. It is not possible to identify the company's share of assets and liabilities in the scheme on a consistent and reasonable basis. Therefore, in accordance with FRS 17 paragraph 9 (b) (multi-employer exemption), the scheme is accounted for as if it were a defined contribution scheme.

The pension contribution for the year amounted to £1,312,000 (2006 £484,000)

In order to provide information about the existence of a surplus or deficit in the scheme, a separate valuation of the scheme as at 31 March 2007 using the projected unit basis required by the Standard has been obtained.

The valuation of the group scheme shows the following deficit

UK group scheme £74,100,000

For the purposes of these financial statements, these figures are illustrative only and do not impact on the results or the balance sheet of the company. It should also be noted that these figures include a substantial proportion of pension assets and liabilities relating to other group companies which also participate in the scheme. It has not been possible to identify the share of the surplus/deficit which relates solely to Brush Transformers Limited. Further details of the group pension scheme can be found in the financial statements of the ultimate parent undertaking, FKI plc.

20. Financial commitments

Lease commitments

At 31 March 2007, the company had annual financial commitments under non-cancellable operating leases which expire as follows

	<i>Plant and equipment</i>	
	<i>2007</i>	<i>2006</i>
	<i>£000</i>	<i>£000</i>
Operating leases which expire		
– within one year	88	90
– within two to five years	27	210
	<u>115</u>	<u>300</u>

21. Contingent liabilities

As part of a group banking arrangement, the company has entered into a multilateral cross guarantee with certain group companies in respect of group overdraft borrowings.

Other outstanding bonds and guarantees at the year end amounted to £4,286,000 (2006 £2,763,000)

22. Related party transactions

The company is exempt from the requirements of Financial Reporting Standard 8 "Related Party Disclosures" to include details of transactions with related parties who are fellow group undertakings.

There are no other related party transactions to disclose.

Notes to the financial statements

at 31 March 2007

23. Ultimate parent undertaking

The director regards FKI plc, a company incorporated in Great Britain and registered in England and Wales, as the company's ultimate parent undertaking and controlling party

FKI plc is the parent undertaking of the largest and smallest group of which Brush Transformers Limited is a member and for which group financial statements are drawn up. Copies of the financial statements are available from the Company Secretary, FKI plc, Falcon Works, PO Box 7713 Meadow Lane, Loughborough, Leicestershire, LE11 1ZF