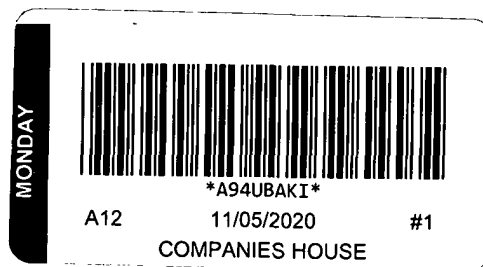


Lennox Industries

**Directors' report and financial
statements**

Registered number 671868

31 December 2018



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Directors' report

The directors present their report and audited financial statements for the year ended 31 December 2018.

Principal activities

The principal activity of the Company is that of a sales and marketing agency in the United Kingdom for commercial heating and air conditioning equipment, service, spares and maintenance.

Business review

The Company recorded a loss before taxation for the year ended 31 December 2018 of £281,860 (2017: *profit before taxation of £109,059*).

Dividend

No dividend is proposed for either the ordinary or preference shares for the year (2017: *£nil*).

Directors

The directors who held office during and subsequent to the year end were as follows:

E E Hagethorn
R B Freitas
D Dibbits (resigned on 31 December 2019)
R A Pelini
P H 't Hart (appointed on 1 January 2020)

Political and charitable contributions

The Company made no disclosable political or charitable donations or incurred any disclosable political expenditure during the year (2017: *£nil*).

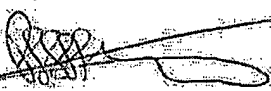
Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the board


P H 't Hart
Director

4th May 2020

Hope Park Business Centre Phase 2
Hope Park
Bradford – West Yorkshire
BD5 8HH

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

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 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;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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 responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



58 Clarendon Road
Watford
WD17 1DE
United Kingdom

Independent auditor's report to the members of Lennox Industries

Opinion

We have audited the financial statements of Lennox Industries ("the company") for the year ended 31 December 2018 which comprise the Profit and loss account, Other comprehensive income, Balance Sheet and Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model, including the impact of Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

Independent auditor's report to the members of Lennox Industries (continued)

Directors' report

The directors are responsible for the directors' report. Our opinion on the financial statements does not cover that report and we do not express an audit opinion thereon.

Our responsibility is to read the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the directors' report;
- in our opinion the information given in that report for the financial year is consistent with the financial statements; and
- in our opinion that report has been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required 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; or
- the directors were not entitled to take advantage of the small companies exemption from the requirement to prepare a strategic report.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 2, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities


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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Independent auditor's report to the members of Lennox Industries (continued)

The purpose of our audit work and to whom we owe our responsibilities

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.



**Charlotte Anderson (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor**

Chartered Accountants
58 Clarendon Road
Watford
WD17 1DE

Date: 6 May 2020

Profit and loss account
for the year ended 31 December 2018

	<i>Note</i>	2018 £	2017 £
Turnover	2	923,542	899,980
Cost of sales		(20,657)	12,222
		<hr/>	<hr/>
Gross profit		902,885	899,980
Administrative expenses		(1,214,252)	(772,921)
		<hr/>	<hr/>
Operating profit		(311,367)	127,059
Interest receivable and similar income	7	39,000	12,222
Interest payable and similar charges	6	(9,493)	(18,000)
		<hr/>	<hr/>
(Loss) / profit on ordinary activities before taxation	3	(281,860)	109,059
Tax on profit on ordinary activities	8	233,410	210,800
		<hr/>	<hr/>
(Loss) / profit for the financial year		(48,450)	319,859
		<hr/>	<hr/>

All results arise from continuing operations.

The notes on pages 10 to 21 form part of these financial statements.

Other Comprehensive Income
for the year ended 31 December 2018

	<i>Note</i>	2018 £	2017 £
(Loss) / profit for the financial year		(48,450)	319,859
Other comprehensive income			
Remeasurement of the net defined benefit pension liability <i>(note 17)</i>		(242,000)	1,603,000
Income tax on other comprehensive income		(233,410)	(210,800)
		<hr/>	<hr/>
Other comprehensive income for the year, net of income tax		(475,410)	1,392,200
		<hr/>	<hr/>
Total comprehensive income for the year		(523,860)	1,712,059
		<hr/>	<hr/>

All results arise from continuing operations.

The notes on pages 10 to 21 form part of these financial statements.

Balance sheet
at 31 December 2018

	<i>Note</i>	2018 £	2017 £
Fixed assets			
Tangible assets	9	1,058	1,634
		<u>1,058</u>	<u>1,634</u>
Current assets			
Debtors	10	33,441	35,206
Cash at bank and in hand		46,736	29,648
		<u>80,177</u>	<u>64,854</u>
Creditors: amounts falling due within one year	11	(2,311,410)	(127,040)
Net current liabilities		<u>(2,231,233)</u>	<u>(62,186)</u>
Total assets less current liabilities		<u>(2,230,175)</u>	<u>(60,552)</u>
Creditors: amounts falling due after more than one year	12		(1,512,763)
Net liabilities excluding pension liabilities		<u>(2,230,175)</u>	<u>(1,573,315)</u>
Provisions for liabilities			
Pensions and similar obligations	17	1,373,000	1,240,000
Deferred tax liability	13		
Net liabilities including pension liabilities		<u>(857,175)</u>	<u>(333,315)</u>
Capital and reserves			
Called up share capital	14	314,040	314,040
Capital contribution account	15	10,689,264	10,689,264
Share premium account		2,520,760	2,520,760
Profit and loss account		(14,381,239)	(13,857,379)
Shareholders' deficit		<u>(857,175)</u>	<u>(333,315)</u>

These financial statements were approved by the board of directors on 4th May 2020 and were signed on its behalf by:


P.H. 't Hart
Director

Company registered number: 671868

The notes on pages 10 to 21 form part of these financial statements.

Statement of Changes in Equity

	Called up share capital £	Capital redemption reserve £	Share premium account £	Profit and loss account £	Total equity £
Balance at 1 January 2017	314,040	10,689,264	2,520,760	(15,569,438)	(2,045,374)
Total comprehensive income for the period					
Profit or loss				319,859	319,859
Other comprehensive income				1,392,200	1,392,200
Total comprehensive income for the period				1,712,059	1,712,059
Balance at 31 December 2017	314,040	10,689,264	2,520,760	(13,857,379)	(333,315)
	Called up share capital £	Capital redemption reserve £	Share premium account £	Profit and loss account £	Total equity £
Balance at 1 January 2018	314,040	10,689,264	2,520,760	(13,857,379)	(333,315)
Total comprehensive income for the period					
Profit or loss				(48,450)	(48,450)
Other comprehensive income				(475,410)	(475,410)
Total comprehensive income for the period				(523,860)	(523,860)
Balance at 31 December 2018	314,040	10,689,264	2,520,760	(14,381,239)	(857,175)

Notes on pages 10 to 21 form part of these financial accounts.

Notes

(forming part of the financial statements)

1 Accounting policies

Lennox Industries (the "Company") is a company limited by shares and incorporated and domiciled in the UK.

These financial statements were prepared in accordance with Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102"). The presentation currency of these financial statements is sterling.

The Company's ultimate parent undertaking, Lennox International Inc. includes the Company in its consolidated financial statements. The consolidated financial statements of Lennox Industries Inc. are available to the public and may be obtained from the address given in note 20. In these financial statements, the company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Reconciliation of the number of shares outstanding from the beginning to end of the period;
- Cash Flow Statement and related notes; and
- Key Management Personnel compensation.

As the consolidated financial statements of Lennox Industries Inc. include the equivalent disclosures, the Company has also taken the exemptions under FRS 102 available in respect of the following disclosures:

- The disclosures required by FRS 102.11 *Basic Financial Instruments* and FRS 102.12 *Other Financial Instrument Issues* in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

The Company proposes to continue to adopt the reduced disclosure framework of FRS 102 in its next financial statements.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Critical accounting estimates and areas of judgement

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are considered likely to occur based on available information at the time.

The company makes estimates and assumptions concerning the future. The resulting accounting estimates and assumptions may differ from those estimates. The estimates and assumptions that will have the most significant effect on carrying amounts of assets and liabilities recognised in the financial statements are disclosed below:

Pensions – in calculating our Defined benefit pension liability, management makes assumptions about inflation rates, discount rates and mortality rates. The major assumptions are disclosed in note 17. Due to the complexity of the valuation and the long term nature of the defined benefit plan, these estimates are subject to uncertainty.

Notes (continued)

1 Accounting policies (continued)

Going concern

Notwithstanding net current liabilities of £2,231,233 as at 31 December 2018, the financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The Company is dependent upon sustained sales made by the parent company which will result in commission income for Lennox Industries. Furthermore, the company earns revenue on after sales services provided to the customers of the parent company. In the event of a government or self-imposed shutdown, the cessation of sales of goods by the parent company could result in a shortfall of cash flow for the company. However, the company has access to loans from LGL Holland B.V. to mitigate this risk. Furthermore, Lennox International Inc. – the Ultimate Parent Company, has indicated its intention to continue to make available such funds as are needed by the company for the period covered by the forecasts. However, there can be no assurance that circumstances could occur where cash flow disruptions could occur which may negatively impact the business.

The directors have prepared cash flow forecasts for a period of 12 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides, the company will have sufficient funds through funding from its fellow subsidiary company, LGL Holland B.V., to meet its liabilities as they fall due for that period. Those forecasts are dependent on LGL Holland B.V. not seeking repayment of the amounts currently due, which at the balance sheet date amounted to £2,155,446. Were LGL Holland B.V. to seek repayment of this loan, these forecasts would become dependent on the company's ultimate parent company, Lennox International Inc., providing additional financial support during that period. Lennox International Inc. has indicated its intention to continue to make available such funds as are needed by the company for the period covered by the forecasts. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Consequently, the directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Tangible fixed assets

Tangible fixed assets are shown at cost less accumulated depreciation. Depreciation is provided 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:

Equipment - 5-10 years

Residual value is calculated on prices prevailing at the date of acquisition.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

Taxation

The charge for taxation is based on the profit or loss for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 102.

Notes (continued)

1 Accounting policies (continued)

Post-retirement benefits

The Company operates a defined contribution pension scheme and a defined benefit pension schemes.

The assets of the defined contribution pension scheme are held separately from those of the Company in an independently administered fund. The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

The assets of the defined benefit pension scheme are held separately from those of the Company. Pension scheme assets are measured using market values. For quoted securities the current bid price is taken as market value. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement in the scheme surplus/deficit is split between operating charges, finance items and, in the statement of total recognised gains and losses, actuarial gains and losses.

Foreign currency

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Turnover

Turnover for the year represents commission earned on equipment sales generated by Lennox Industries on behalf of Lennox Benelux BV and other related income being the reimbursement by Lennox Benelux BV for its costs incurred.

Leases

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred.

2 Turnover

All turnover was derived from the Company's principal activity.

3 (Loss) / profit on ordinary activities before taxation

	2018	2017
	£	£
<i>(Loss) / profit on ordinary activities before taxation is stated after charging:</i>		
Other exchange losses	24,606	51,037
<i>Auditor's remuneration:</i>		
Audit of these financial statements	29,500	23,500
Other services relating to taxation	7,650	8,450
	<u>37,156</u>	<u>82,987</u>

4 Remuneration of directors

All directors are remunerated by other group companies and the proportion of this remuneration considered to be in respect of this entity is negligible. There are no retirement benefits accruing for any of the directors under money purchase or defined benefit schemes.

Notes (continued)

5 Staff numbers and costs

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

	Number of employees	
	2018	2017
Sales and distribution	10	8
	<u>10</u>	<u>8</u>

The aggregate payroll costs of these persons were as follows:

	2018 £	2017 £
Wages and salaries	406,695	350,439
Social security costs	42,257	35,081
Other pension costs (see below)	209,406	22,633
	<u>658,358</u>	<u>408,153</u>

'Other pension costs' comprise of amounts payable to defined contribution scheme amounting to £10,406 (2017: £9,633) and service costs in respect of the defined benefit schemes amounting to £199,000 (2017: £13,000).

6 Interest payable and similar charges

	2018 £	2017 £
On loans from group undertakings	9,493	-
Net finance costs on pension deficit (See note 17)	-	18,000
	<u>9,493</u>	<u>18,000</u>

7 Interest receivable and similar income

	2018 £	2017 £
Net finance income on pension deficit (See note 17)	39,000	-
	<u>39,000</u>	<u>-</u>

Notes (continued)

8 Taxation on ordinary activities

Analysis of charge in period

	2018 £	2017 £
<i>Current tax</i>		
Current tax on income for the period	(233,410)	(210,800)
<i>Deferred tax</i>		
Origination/(reversal) of timing differences in year	(233,410)	(210,800)
Total deferred tax	(233,410)	(210,800)
Tax on ordinary activities	(233,410)	(210,800)

Factors affecting the tax charge for the current period

The current tax recorded for the period is lower than (2017: lower) the standard rate of corporation tax in the UK of 19 % (2017: 19.25%). The differences are explained below:

	2018 £	2017 £
Loss / (profit) on ordinary activities before tax	(281,860)	109,059
Tax on profit on ordinary activities at 19% (2017: 19.25%)	(53,553)	20,994
<i>Effects of:</i>		
Expenses not deductible for tax purposes	513	520
Pensions contribution adjustment	(71,250)	(116,270)
Impact of rate differences between deferred and current tax	11,075	11,075
Deferred tax not recognised	124,291	83,681
(Recognition) / derecognition of deferred tax not previously recognised	(233,410)	(210,800)
Total tax (credit) / charge (see above)	(233,410)	(210,800)

	2018			2017		
	£	£	£	£	£	£
	Current tax	Deferred tax	Total tax	Current tax	Deferred tax	Total tax
Recognised in Profit and loss account	(233,410)	(233,410)	(233,410)	(210,800)	(210,800)	(210,800)
Recognised in other comprehensive income	233,410	233,410	233,410	210,800	210,800	210,800
Total tax	(233,410)	(233,410)	(233,410)	(210,800)	(210,800)	(210,800)

Reductions in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015. An additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This is not expected to impact the company's future current tax charge. The deferred tax asset at 31 December 2018 has been calculated based on these rates.

Notes (continued)

9 Fixed assets

	Equipment £
Cost	
Balance at 1 January and 31 December	2,884
Depreciation	
Balance at 1 January	1,250
Depreciation charge for the year	576
Balance at 31 December	1,826
Net book value at 31 December 2018	1,058
Net book value at 31 December 2017	1,634

10 Debtors

	2018 £	2017 £
Amounts owed by group undertakings		
VAT receivable	11,355	10,321
Prepayments	22,086	24,885
	33,441	35,206

11 Creditors: amounts falling due within one year

	2018 £	2017 £
Trade creditors	58,596	20,590
Amounts owed to group undertakings	2,177,151	32,020
Other creditors	7,550	7,550
Accruals and deferred income	68,113	66,880
	2,311,410	127,040

Amounts owed to group undertakings include loans from LGL Holland B.V., a company incorporated in the Netherlands, of £2,155,446. The loan from LGL Holland B.V. has been drawn from an available facility of €25,000,000, bears interest at Euro LIBOR and was due for repayment on 3 April 2019. During the current year, the loan agreement has been revised, pursuant to which the loan is now repayable on demand. Accordingly, the outstanding balance as at 31 December 2018 has been classified as current liabilities. In the previous year, the outstanding balance amounting to £1,512,763 was classified as a non-current liability.

Notes (continued)

12 Creditors: amounts falling due after more than one year

	2018	2017
	£	£
Amounts owed to group undertakings (note 11)	-	1,512,763

13 Deferred taxation

The elements of deferred taxation are as follows:

	2018	2017
	£	£
Tax losses carried forward	882,571	780,790
	<u>882,571</u>	<u>780,790</u>

The directors have assessed the likelihood of the deferred tax balances reversing in the near future. In accordance with FRS102 they have only recognised a deferred tax asset to the extent this is expected to be utilised in the near future.

Deferred tax assets and liabilities are attributable to the following:

	Assets 2018	2017	Liabilities 2018	2017	Net 2018	2017
	£	£	£	£	£	£
Employee benefits	-	-	233,410	210,800	233,410	210,800
Unused tax losses	(233,410)	(210,800)	-	-	(233,410)	(210,800)
Tax (assets) / liabilities	<u>(233,410)</u>	<u>(210,800)</u>	<u>233,410</u>	<u>210,800</u>	<u>-</u>	<u>-</u>

14 Called up share capital

	2018	2017
	£	£
<i>Allotted, called up and fully paid</i>		
14,040 ordinary shares of £1 each	14,040	14,040
300,000 redeemable non-cumulative preference shares of £1 each	300,000	300,000
	<u>314,040</u>	<u>314,040</u>

The non-cumulative preference shares are redeemable at para either wholly or in part at any time at the option of the company. The holders of preference shares are entitled to receive 6% of profits available for distribution. The holders of preference shares are not entiteled to vote at meetings of the Company. During the year the Company has not issued ordinary shares for cash consideration.

15 Reserves

The capital contribution reserve arose from the conversion of certain loans and accrued interest payable to the ultimate parent company and is not considered by the directors to be distributable.

Notes (continued)

16 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2018 Other £	2017 Other £
Less than one year	30,313	20,166
Between one and five years	33,423	11,937
More than five years		
	<u>63,736</u>	<u>32,103</u>

17 Pension scheme

Defined contribution pension scheme

The Company operates a defined contribution pension scheme. The pension cost charge for the period represents contributions payable by the Company to the scheme and amounted to £10,406 (2017: £9,633).

Defined benefit scheme

Until the previous year, the Company operated two defined benefit pension schemes. On 19 March 2018, the Trustee of the Works Scheme paid a premium to an insurance company in exchange for an annuity policy which exactly matched the liabilities in the Works Scheme for all members (i.e. a buy-in). On 19 October 2018, the Trustee's policy was converted into individual policies in the names of members (i.e. a buy-out). From this date, the Works Scheme no longer held any liability for deferred or pensioner members.

The contribution to the defined benefit schemes is determined by a qualified actuary. The actuarial estimate performed by an independent qualified actuary has been undertaken to provide the information required under FRS 102.

Notes (continued)

17 Pension scheme (continued)

The information disclosed below is in respect of the whole of the plans for which the Company is either the sponsoring employer or has been allocated a share of cost under an agreed group policy throughout the periods shown.

Changes in the present value of the defined benefit obligation are as follows:

	2018 £	2017 £
At 1 January	14,925,000	16,177,000
Company service cost	15,000	13,000
Past service cost	184,000	-
Interest expense	367,000	434,000
Actuarial (gain)	(721,000)	(1,335,000)
Scheme Participant contribution	2,000	2,000
Benefit payments	(380,000)	(366,000)
Settlements	(385,000)	-
	<hr/>	<hr/>
At 31 December	14,007,000	14,925,000

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

	2018 £	2017 £
At 1 January	16,276,000	15,256,000
Contributions by employer	672,000	635,000
Contributions by members	2,000	2,000
Benefits paid	(380,000)	(366,000)
Interest income	406,000	416,000
Remeasurement: Return on plan assets less interest income	(1,074,000)	333,000
Settlement	(522,000)	-
	<hr/>	<hr/>
At 31 December	15,380,000	16,276,000

The amounts recognised in the balance sheet are following:

	2018 £	2017 £
Fair value of plan assets	15,380,000	16,276,000
Present value of defined benefit obligation	(14,007,000)	(14,925,000)
	<hr/>	<hr/>
Deficit in schemes	1,373,000	1,351,000
Effect of asset ceiling	-	(111,000)
	<hr/>	<hr/>
Net pension liability before deferred tax	1,373,000	1,240,000
	<hr/>	<hr/>
Unprovided deferred tax asset at 17% (2017: 17%)	-	-
Provided deferred tax liability at 17% (2017: 17%)	(233,410)	(210,800)
	<hr/>	<hr/>

Notes *(continued)*

17 Pension scheme *(continued)*

Expense recognised in the profit and loss account

	2018 £	2017 £
Current service cost	(15,000)	(13,000)
Past service cost	(184,000)	-
Settlements	(137,000)	-
Interest income/ (expense) on defined benefit pension plan obligation	39,000	(18,000)
	<u> </u>	<u> </u>
Total	(297,000)	(31,000)
	<u> </u>	<u> </u>
Actual return on assets	668,000	748,000

The major categories of total scheme assets are as follows:

	2018 £	2017 £
Equities	2,097,000	2,436,000
Diversified Growth Funds	6,124,000	-
Absolute Real Return Funds	-	7,061,000
Hedge Funds	-	2,169,000
Bonds / Liability Driven Investments	4,922,000	4,338,000
Other (with profits cash)	2,237,000	272,000
	<u> </u>	<u> </u>
	15,380,000	16,276,000
	<u> </u>	<u> </u>

Principal actuarial assumptions (expressed as weighted averages) at the year end were as follows:

	2018 %	2017 %
Rate of increase in salaries	3.8	4.2
Rate of increase in pensions in payment (Staff Scheme)	3.3	3.2
Rate of increase in pensions in payment (Works Scheme)	n/a	3.2
Discount rate	2.8	2.5
Inflation – RPI	3.3	3.2
Inflation – CPI	2.3	2.2
	<u> </u>	<u> </u>

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65-year old to live for a number of years as follows:

- Current pensioner aged 65: 21.8 years (male), 23.7 years (female).
- Future retiree upon reaching 65: 22.8 years (male), 24.9 years (female).

Notes (continued)

17 Pension scheme (continued)

Movement in balance sheet

	2018 £	2017 £
Opening balance sheet net (liability)/asset	1,240,000	(967,000)
Employer's pension (charge)	(297,000)	(31,000)
Employer's contributions	672,000	635,000
Total amount recognised in OCI	(242,000)	1,603,000
Closing balance sheet net asset / (liability)	1,373,000	1,240,000

Remeasurements in Other Comprehensive Income

	2018 £	2017 £
Actuarial gains immediately recognised	353,000	1,668,000
Change in asset ceiling	(111,000)	(65,000)
Total pension cost recognised in the OCI	242,000	1,603,000

History of experience gains and losses

	2018 £	2017 £
Fair value of scheme assets	15,380,000	16,276,000
Present value of defined benefit obligation	(14,007,000)	(14,925,000)
Effect of asset ceiling		(111,000)
Surplus in the scheme	1,373,000	1,240,000

Notes *(continued)*

18 Contingent liabilities

There were no contingent liabilities at 31 December 2018 (2017: *Nil*).

19 Transactions with related parties

The Company has taken advantage of the exemption in FRS 102 not to disclose related party transactions within the group as it is a wholly owned subsidiary of a company whose financial statements, in which the Company is included, are available to the public. There were no other related party transactions.

20 Ultimate parent company and controlling party

Lennox Industries is a subsidiary of HCF-Lennox Limited, a company registered in England and Wales.

The ultimate group of which Lennox Industries is a member and for which group financial statements are drawn up is that headed by Lennox International Inc., the ultimate parent undertaking, a company registered in Delaware, USA. The financial statements of Lennox International Inc. are available to the public from 2140 Lake Park Boulevard, Richardson, TX, 75080, USA.

Lennox International Inc. is a public company registered with the U.S. Securities and Exchange Commission and traded on the New York Stock Exchange. It is controlled by a diverse group of shareholders.