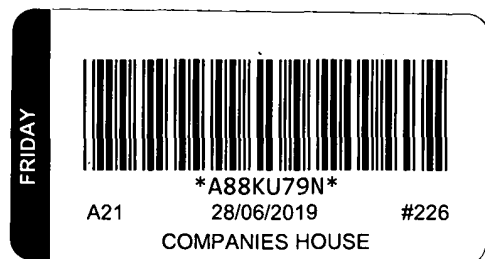


Knowles Europe (Company Limited by Guarantee)

Annual Report and Financial Statements

For the year ended 31 December 2018

Registered number: 00703640



Directors and advisers

Directors

Air Bastarrica
D Giesecke

Company Secretary

R Perna

Independent Auditors

Lovewell Blake LLP
Chartered Accountants and Statutory Auditors
Bankside 300
Peachman Way
Broadland Business Park
Norwich
NR7 0LB

Bankers

Natwest Bank plc
Holborn Circus Branch
1 Hatton Garden
London EC1P 1DU

Registered Office

Dean Wilson Laing
96 Church Street
Brighton
England
BN1 1UJ

Directors' report

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

Results and dividends

The profit for the financial year amounted to £267,000 (2017 – profit of £262,000). The directors do not recommend the payment of any dividends (2017 – £nil).

Review of the business

Sales and distribution continue to be made by Knowles IPC (M) Sdn. Bhd. in Malaysia with the main source of revenue for Knowles Europe being the intercompany commission paid on the sales invoiced by Knowles IPC (M) Sdn. Bhd. to the customers of Knowles Europe. The Company continued to operate profitably during the year and the directors believe that the present level of activity will be sustained for the foreseeable future.

Future developments

The primary objective of the Knowles group of companies is to develop, manufacture and sell a line of advanced micro-acoustic solutions and specialty components serving the mobile communications, consumer electronics, medical technology, military, aerospace and industrial markets. The Knowles group of companies will also continue to investigate applications in other markets the requirements of which may be met by electro-acoustic transducers similar to the present producers.

In the coming years, as in the past, Knowles Europe will continue to play a role in meeting that objective by providing sales support for components in the medical technology and consumer electronic markets.

Principal risks and uncertainties

The directors of the largest parent undertaking, Knowles Corporation, manage the Company's risks and performance. For this reason a discussion of the Company's risks, together with an analysis using key performance indicators has not been included by the Company's directors. The principal risks and uncertainties, together with the development, performance and position, and an analysis using key performance indicators of Knowles Corporation, which include those of the Company, are discussed in the business review of Knowles Corporation's annual financial statements, which does not form part of this report. The financial statements of Knowles Corporation can be obtained from the address noted in note 12.

Financial risk management

The Company's operations expose it to a variety of financial risks that include liquidity risk and interest rate risk. Currency risk and credit risk are mitigated by the limited risk distributor agreement with the parent company. Given the size of the Company, the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the board. The policies set by the board are implemented by the Company's finance department.

Liquidity risk

The Company had a receivable balance with Knowles Electronics Singapore Pte. Ltd. of £8,137,419 at the year-end (2017: £7,964,942). The Company can liquidate this amount on demand to meet the short to medium term funding requirements of its operations and would have access to longer term funding from its ultimate parent company if required.

Interest rate risk

Due to the amounts involved the directors consider the interest rate risk in respect of cash balances is minimal. The Company does not have any short or long-term external debt and therefore the directors do not consider the Company to have any significant exposure to interest rate risks on liabilities. The Company therefore has no requirement to use derivative financial instruments to manage interest rate costs.

Directors' report

Directors

The following directors held office during the year and up to the date of signing the financial statements unless otherwise stated:

Air Bastarrica (Appointed 7 June 2019)
D Giesecke
R C Parfitt (Resigned 7 June 2019)

Strategic report

This report has been prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006 and the company is exempt from the requirement to prepare a strategic report.

Disclosure of information to auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information of which the auditors are unaware. Having made enquiries of fellow directors and the company's auditors, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor are aware of that information.

Statement of Directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are 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.

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.

Directors' report

Directors' confirmations

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Signed by the board and approved on its behalf by:



Air Bastarrica

Director

26 JUNE 2019

Independent auditors' report

to the members of Knowles Europe (Company Limited by Guarantee)

Opinion

We have audited the financial statements of Knowles Europe (Company Limited by Guarantee) (the 'company') for the year ended 31 December 2018 which comprise the statement of comprehensive income, statement of financial position, statement of changes in equity and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

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 profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- 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 under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

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

Independent auditors' report

to the members of Knowles Europe (Company Limited by Guarantee)

Other information

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report has been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which 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.

Independent auditors' report

to the members of Knowles Europe (Company Limited by Guarantee)

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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

Independent auditors' report

to the members of Knowles Europe (Company Limited by Guarantee)

Lovewell Blake

Steven Scarlett ACA (Senior Statutory Auditor)

For and on behalf of

Lovewell Blake LLP

Chartered accountants & statutory auditor

Bankside 300

Peachman Way

Broadland Business Park

Norwich

NR7 0LB

27 June 2019

Statement of comprehensive income

for the year ended 31 December 2018

	<i>Note</i>	2018 £000	2017 £000
Turnover		1,009	744
Cost of sales		-	-
Gross profit		<u>1,009</u>	<u>744</u>
Distribution costs		(176)	(136)
Administrative expenses		(802)	(524)
Operating profit	3	<u>30</u>	<u>84</u>
Interest income and similar income	4	245	240
Other finance income	11	15	-
Profit before taxation		<u>290</u>	<u>324</u>
Tax on profit	7	(23)	(62)
Profit for the financial year		<u>267</u>	<u>262</u>
Other comprehensive income / (expense):			
Actuarial gains / (losses) on pension scheme	11	355	266
Movement on deferred tax related to pension surplus/deficit		(60)	(45)
Other comprehensive income for the year, net of tax		<u>295</u>	<u>221</u>
Total comprehensive income for the year		<u>562</u>	<u>483</u>

All amounts relate to continuing operations.

Statement of financial position

as at 31 December 2018

	Note	2018 £000	2017 £000
Current assets			
Debtors including £89,000 amounts falling due after more than one year (2017: £76,000)	8	8,735	8,593
Cash at bank and in hand		124	39
		<u>8,859</u>	<u>8,632</u>
Creditors: amounts falling due within one year	9	(261)	(157)
Net current assets		<u>8,598</u>	<u>8,475</u>
Post-employment benefits	11	<u>661</u>	<u>222</u>
Net assets		<u>9,259</u>	<u>8,697</u>
Capital and reserves			
Capital contribution		501	501
Retained earnings		8,758	8,196
Total equity		<u>9,259</u>	<u>8,697</u>

The financial statements on pages 8 to 23 were approved by the board of directors on 26 JUNE 2019 and signed on its behalf by:


Air Bastarnica

Director

Registered number: 00703640

Statement of changes in equity

for the year ended 31 December 2018

	<i>Capital contribution</i>	<i>Retained earnings</i>	<i>Total equity</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
Balance as at 1 January 2017	501	7,713	8,214
Profit for the financial year	-	262	262
Other comprehensive income for the year:			
Actuarial gain, net of deferred tax	-	221	221
Total comprehensive income for the year	-	483	483
Balance as at 31 December 2017	501	8,196	8,697
Profit for the financial year	-	267	267
Other comprehensive income for the year:			
Actuarial gain, net of deferred tax	-	295	295
Total comprehensive income for the year	-	562	562
Balance as at 31 December 2018	501	8,758	9,259

Notes to the financial statements for the year ended

31 December 2018

1. Accounting policies

General Information

Knowles Europe is a private company limited by guarantee without share capital and it is incorporated in the United Kingdom. The address of its registered office is Dean Wilson Laing, 96 Church Street, Brighton, BN1 1UJ.

The principal activity of the company during the year was sales of electronic components in accordance with a limited risk distributor agreement with Knowles IPC (M) Sdn. Bhd. This agreement was entered into in May 2002 and revised in January 2008.

Statement of compliance

The individual financial statements of Knowles Europe have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006.

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.

Basis of preparation

The financial statements are prepared on the going concern basis, under the historical cost convention, and in accordance with Companies Act 2006, and applicable accounting standards in the United Kingdom.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its 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 'Critical accounting judgements and key source of estimation uncertainty' section of this note.

Exemptions for qualifying entities under FRS 102

FRS 102 allows a qualifying entity certain disclosure exemptions, if certain conditions have been complied with, including notification of and no objection to, the use of exemptions by the company's shareholders. A qualifying entity is defined as a member of a group that prepares publicly available financial statements, which give a true and fair view, in which that member is consolidated. The company is a qualifying entity as its results are consolidated into the financial statements of Knowles Corporation which are publicly available.

As a qualifying entity, the company has taken advantage of the following exemptions:

- i) from the requirement to prepare a statement of cash flows as required by paragraph 3.17(d) of FRS 102;
- ii) from the requirement to present certain financial instrument disclosures, as required by sections 11 and 12 of FRS 102;
- iii) from the requirement to present a reconciliation of the number of shares outstanding at the beginning and end of the period as required by paragraph 4.12(a)(iv) of FRS 102; and
- iv) from the requirement to disclose the key management personnel compensation in total as required by paragraph 33.7 of FRS 102.

Notes to the financial statements for the year ended

31 December 2018

1. Accounting policies (continued)

Foreign currencies

- (i) *Functional and presentation currency:* The company's functional and presentation currency is the pound sterling, rounded to the nearest thousand pound sterling.
- (ii) *Transactions and balances:* Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions. At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Turnover

Turnover on continuing activities represents intercompany commission receivable in accordance with a limited risk distributor agreement with Knowles IPC (M) Sdn. Bhd. Turnover is recognised at the end of each financial month in which the costs are incurred by the company. Turnover by geographical market has not been disclosed as in the opinion of the directors, it would be seriously prejudicial to the interests of the company.

Interest receivable

Interest receivable relates to interest earned on the receivable balance with group undertakings as part of the cash pooling agreement and is recognised on a time-apportioned basis using the effective interest method.

Employee benefits

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

(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 benefit pension plans

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 age, length of service and remuneration. A defined benefit plan is a pension plan that is not a defined contribution plan.

The asset recognised in the statement of financial position in respect of the defined benefit plan is the present value of the fair value of the plan assets at the reporting date less the defined benefit obligation at the reporting 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 the estimated period of the future payments ('discount rate').

Notes to the financial statements for the year ended 31 December 2018

1. Accounting policies (continued)

Employee benefits (continued)

The fair value of plan assets is measured in accordance with the FRS 102 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 'Remeasurement of net defined benefit liability'.

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

- (a) the increase in 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 profit or loss as 'Other finance (loss)/income'.

Pension scheme assets are measured using market values. Pension scheme liabilities are measured using the projected unit actuarial method and are discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. Any increase in the present value of the liabilities of the company's defined benefit pension scheme expected to arise from employee service in the period is charged to operating profit.

The return on the scheme's assets and the increase during the period in the present value of the scheme's liabilities arising from the passage of time are included in other finance income. Actuarial gains and losses are recognised in other comprehensive income. Pension scheme surpluses, to the extent that they are considered recoverable, or deficits are recognised on the statement of financial position net of related deferred tax, in accordance with the accounting policy for deferred taxation.

Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

Current or deferred taxation assets and liabilities are not discounted.

i) Current tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. The current income tax charge is calculated on the basis of the tax laws enacted at the reporting date.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Notes to the financial statements for the year ended 31 December 2018

1. Accounting policies (continued)

Taxation (continued)

ii) Deferred tax

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is recognised on all timing differences at the reporting date except for certain exceptions. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

Leases

At inception the company assesses agreements that transfer the right to use assets. The assessment considers whether the arrangement is, or contains, a lease based on the substance of the arrangement.

Operating leased assets

Leases that do not transfer all the risk and rewards of ownership are classified as operating leases. Rentals payable under operating leases are charged in the statement of comprehensive income on a straight-line basis over the lease term.

Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of a past event, it is probable that a transfer of economic benefit will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Financial instruments

The company has chosen to adopt sections 11 and 12 of FRS 102 in respect of financial instruments.

i) Financial assets

Basic financial assets, including trade and other debtors, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Such assets are subsequently carried at amortised cost using the effective interest method where applicable.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in the statement of comprehensive income.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in the statement of comprehensive income.

Notes to the financial statements for the year ended 31 December 2018

Financial assets are derecognised when (i) the contractual rights to the cash flows from the asset expire or are settled, or (ii) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (iii) despite having retained some significant risks and rewards of ownership, control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

1. Accounting policies (continued)

Financial Instruments (continued)

ii) Financial Liabilities

Basic financial liabilities, including trade and other creditors and loans from fellow group companies are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

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

The company does not hold or issue any derivatives financial instruments.

iii) Offsetting

Financial assets and liabilities are offset and the net amount presented in the financial statements when there is a legally 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.

Related party transactions

The company has taken advantage of the exemption as per paragraph 33.1A of FRS 102, 'Related Party Disclosures' from disclosing group related party transactions under FRS 102. This is on the grounds that the company is a wholly owned subsidiary of a group whose financial statements are publicly available.

Critical judgements and estimates in applying the accounting policies

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets and liabilities, revenue and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The estimates and assumptions 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) Defined benefit pension scheme

The company has obligations 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 obligation in the statement of financial position. The assumptions reflect historical experience and current trends.

Notes to the financial statements for the year ended 31 December 2018

2. Turnover

Turnover arises from:

	2018 £000	2017 £000
Service fee income	<u>1,009</u>	<u>744</u>

The turnover is attributable to the one principal activity of the company. An analysis of turnover by the geographical markets that substantially differ from each other is given below:

	2018 £000	2017 £000
Far East	<u>1,009</u>	<u>744</u>

3. Operating profit

This is stated after charging / (crediting):

	2018 £000	2017 £000
Services provided by the company's auditors		
Fees payable for the audit	<u>8</u>	<u>28</u>
Net loss / (gain) on foreign currency translation	<u>4</u>	<u>22</u>

4. Interest income and similar income

	2018 £000	2017 £000
Interest income from group undertaking	<u>245</u>	<u>240</u>

5. Directors' remuneration

The directors of the company are also directors of a number of other companies within the Knowles group. The directors' services to the company do not occupy a significant amount of their time. As such the directors do not consider that they have received any remuneration for their incidental services to the company for the years ended 31 December 2018 and 31 December 2017.

Notes to the financial statements for the year ended

31 December 2018

6. Staff costs

	2018 £000	2017 £000
Wages and salaries	128	82
Social security costs	13	12
Other pension costs (note 10)	366	49
	<u>507</u>	<u>143</u>

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

	2018 Number	2017 Number
Administrative staff	<u>3</u>	<u>1</u>

7. Tax on profit

(a) Analysis of tax charge

The tax charge is made up as follows:

	2018 £000	2017 £000
<i>Current tax:</i>		
UK corporation tax on profits of the year	-	-
Total current tax	<u>-</u>	<u>-</u>
<i>Deferred tax:</i>		
Origination and reversal of timing differences	55	62
Adjustment in respect of previous periods	(32)	-
Total deferred tax (note 7(c))	<u>23</u>	<u>62</u>
Total tax on profit	<u>23</u>	<u>62</u>

(b) Tax (expense) / income included in other comprehensive income:

	2018 £000	2017 £000
Deferred tax		
- Movement on deferred tax relating to pension deficit (note 8(a))	(135)	(45)
- Impact on change in tax rate	-	-
Total tax (expense) / income included in other comprehensive income	<u>(135)</u>	<u>(45)</u>

Notes to the financial statements for the year ended 31 December 2018

(c) Factors affecting tax charge for the year

The tax assessed for the year is the same as the standard rate of corporation tax in the UK of 19% (2017 – 19%). The differences are explained below:

	2018 £000	2017 £000
Profit before taxation	290	324
Profit before taxation multiplied by standard rate in the UK of 19% (2017 – 19%)	55	62
<i>Effects of:</i>		
Adjustment in respect of previous periods	(32)	-
Total tax for the year (note 7(a))	23	62

The standard rate of corporation tax in the UK during the year is 19%. Accordingly, the company's profits for the accounting year are taxed at an effective rate of 19%.

In a previous year the Finance Act 2016 was substantively enacted on 15 September 2016. This Act included provisions reducing the main rate of UK corporation tax to 19% from 1 April 2017 and 17% from 1 April 2020. Accordingly, the relevant deferred tax balances have been re-measured using the future UK Corporation tax rate of 17%.

8. Debtors

	2018 £000	2017 £000
Amounts falling due within one year:		
Amounts owed by group undertakings	8,643	8,513
Other debtors	-	4
Prepayments and accrued income	3	-
	8,646	8,517
Amounts falling due after more than one year:		
Deferred tax (Note 8(a))	89	76
Total debtors	8,735	8,593

The amounts owed by group undertakings consists of £8,137,419 (2017: £7,964,942) in relation to the cash-pooling facility. These amounts are unsecured, attract interest at a rate of 3.07%, and have no fixed date of repayment, although are available on demand.

Notes to the financial statements for the year ended 31 December 2018

(a) Deferred tax

Analysis of the deferred tax balances are as follows:

	2018 £000	2017 £000
Trading losses carried forward	<u>89</u>	<u>76</u>
	89	76
Deferred tax (liability) relating to pension surplus:		
	2018 £000	2017 £000
As at 1 January	(45)	42
Deferred tax charge in statement of comprehensive income	(30)	(42)
Deferred tax (debited) to other comprehensive income on actuarial gains	<u>(60)</u>	<u>(45)</u>
At as 31 December (Note 11)	<u>(135)</u>	<u>(45)</u>

9. Creditors: amounts falling due within one year

	2018 £000	2017 £000
Trade creditors	26	-
Amounts owed to group undertakings	107	77
Social security and other taxes	3	-
Accruals and deferred income	<u>125</u>	<u>80</u>
	<u>261</u>	<u>157</u>

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

10. Company limited by guarantee

The company is a private company limited by guarantee and consequently does not have share capital. There have been no changes in equity during the year.

Notes to the financial statements for the year ended 31 December 2018

11. Post-employment benefits

The company operates a defined benefit scheme in the UK, the Knowles Europe Pension Plan. The scheme is funded by the payment of contributions to a separately administered fund. The scheme provides retirement benefits on the basis of members' final salary. A full actuarial valuation, using a projected unit basis, was carried out as at 31 December 2013 and updated to 31 December 2016 for section 28 of FRS 102 purposes by a qualified independent actuary Willis Towers Watson.

The company was required to contribute to the scheme at a rate of 34.9% of pensionable salaries up until 31 December 2017. Following the 31 December 2016 funding valuation, the Company agreed to contribute to the scheme at a rate of 57.1% of pensionable salaries from 1 January 2018, subject to review at future valuations. As there are insufficient assets to cover the Plan's technical provisions at the formal funding valuation date of 31 December 2016, the Trustees and the company agreed to a recovery plan, making deficit contributions to the scheme on a quarterly basis from 1 January 2018. The company made deficit contributions of £482,000 during year ended 31 December 2018. The principal actuarial assumptions used to calculate scheme assets and liabilities under section 28 of FRS 102 are as follows:

	2018	2017
	%	%
Rate of increase in salaries	4.40	4.50
Rate of increase in pensions in payment and deferred pensions	2.40-3.70	2.50-3.75
Discount rate	2.80	2.50
Price inflation assumption - RPI	3.40	3.50
Price inflation assumption - CPI	2.40	2.50

Mortality assumption:

As the membership of the Plan is too small to provide any significant experience this assumption is based on mortality experienced by larger pension schemes in the UK. The mortality tables adopted for these disclosures are the CMI Self-Administered Pension Schemes (SAPS) S2 all pensioner tables. Future improvements in longevity are in line with the CMIB (core 2013) projection model from 2007, assuming a long-term trend for future improvements of 1.5% per annum. The adoption of these mortality tables leads to a life expectancy for a 65 year old male of 22.4 years now (2017: 22.4 years) and 23.7 years in 15 years' time (2017: 23.6 years). In respect of 65 year old females this gives a life expectancy of 24.8 years now (2017: 24.7) and 26.2 years in 15 years' time (2017: 26.1)

The sensitivities regarding the principal assumption used to measure the plan liabilities are set out below:

Assumption	Change in assumption	Impact on plan liabilities %
Discount rate	+ / - 1.0%	- / + 16.4
Rate of inflation	+ / - 1.0%	+ / - 8.0
Rate of increase in salaries	+ / - 1.0%	+ / - 1.0
Rate of increase in pensions payment	+ / - 1.0%	+ / - 6.7
Mortality	Increase by 1 year	+ 4.0

Notes to the financial statements for the year ended 31 December 2018

The values of the assets and liabilities were as follows:

	2018 £000	2017 £000
Equities	4,286	9,154
Debt securities	9,566	3,987
Bonds	3,042	3,970
Other assets	47	67
Total fair value of assets	16,941	17,178
Present value of scheme liabilities	(16,145)	(16,911)
Surplus / (deficit) in the scheme	796	267
Related deferred tax (liability) / asset	(135)	(45)
Net pension surplus / (deficit)	661	222

The amounts recognised in the statement of comprehensive income and in other comprehensive income for the years ended 31 December 2018 and 31 December 2017 are:

	2018 £000	2017 £000
Recognised in the statement of comprehensive income:		
Current service cost in respect of defined benefit scheme	(50)	(49)
Past service costs	(316)	-
Total operating charge	(366)	(49)
Other finance income/(expense):		
Net interest income on pension scheme	15	-
Net actuarial gain / (loss) on pension scheme	355	266
Gain / (loss) recognised in the statement of comprehensive income	4	217
Recognised in other comprehensive income:		
	2018 £000	2017 £000
Actuarial (loss) / gain on pension scheme assets	(606)	1,156
Experience gain / (loss) arising on the scheme liabilities	2	(453)
Changes in assumptions underlying the present value of the liabilities	959	(516)
Gain due to changes in demographic assumptions	-	79
Actuarial gain / (loss) recognised in other comprehensive income during the year	355	266

Notes to the financial statements for the year ended 31 December 2018

Reconciliation of scheme assets and liabilities

	<i>Assets</i>	<i>Liabilities</i>	<i>Total</i>
	£000	£000	£000
At 1 January 2017	15,852	(16,069)	(217)
Benefits Paid	(528)	528	-
Employer Contributions	267	-	267
Employee Contributions	4	(4)	-
Administrative Expenses	-	(49)	(49)
Interest Income/(expense)	427	(427)	-
Remeasurement gains/(losses):			
- Actuarial losses	-	(890)	(890)
- Return on plan assets excluding interest income	1,156	-	1,156
At 31 December 2017	17,178	(16,911)	267
Benefits Paid	(591)	591	-
Employer Contributions	525	-	525
Employee Contributions	4	(4)	-
Administrative Expenses	-	(50)	(50)
Interest Income/(expense)	431	(416)	15
Past Service Costs	-	(316)	(316)
Remeasurement gains/(losses):			
- Actuarial losses	-	961	961
- Return on plan assets excluding interest income	(606)	-	(606)
At 31 December 2018	16,941	(16,145)	796

Notes to the financial statements for the year ended 31 December 2018

12. Ultimate parent undertaking and controlling party

The immediate parent undertaking is Knowles Luxembourg S.à r.l., a company incorporated in Luxembourg.

The company's ultimate parent undertaking and controlling party is Knowles Corporation (a company incorporated in the USA).

The largest group in which the results of Knowles Europe are consolidated is that headed by Knowles Corporation. The group financial statements of Knowles Corporation are available from:

1151 Maplewood Drive
Itasca
IL 60143

The smallest group of undertakings for which group financial statements were drawn up and of which Knowles Europe is a member is Knowles Luxembourg S.à r.l., a company incorporated in Luxembourg.

Knowles Luxembourg S.à r.l. financial statements are obtainable from:

5, avenue Gaston Diedrich, L-1420

13. Reserves

Capital contribution – this reserve represents the total contributions made by parent undertakings.

Retained earnings – this reserve accumulates profits and losses, less any distributions to owners.