

Strategic Report, Report of the Directors and

Financial Statements

for the Year Ended 31 December 2018

for

AVL United Kingdom Ltd



**Contents of the Financial Statements
for the year ended 31 December 2018**

	Page
Company Information	1
Strategic Report	2
Report of the Directors	5
Report of the Independent Auditors	7
Income Statement	9
Other Comprehensive Income	10
Statement of Financial Position	11
Statement of Changes in Equity	12
Notes to the Financial Statements	13

AVL United Kingdom Ltd
Company Information
for the year ended 31 December 2018

DIRECTORS:	H O List A Ciriello
SECRETARY:	S M Sweeney
REGISTERED OFFICE:	Avon House Hartlebury Trading Estate Hartlebury Worcestershire DY10 4JB
REGISTERED NUMBER:	01067795 (England and Wales)
SENIOR STATUTORY AUDITOR:	Stuart Banks FCA
AUDITORS:	Banks Sheridan (Statutory Auditor) Datum House Electra Way Crewe Cheshire CW1 6ZF
BANKERS:	NatWest Northwich Branch The Bull Ring Northwich Cheshire CW9 5BN

**Strategic Report
for the year ended 31 December 2018**

The directors present their strategic report for the year ended 31 December 2018.

The principal activities of the company in the year under review were those of design, supply, commissioning and service of test facilities for vehicle propulsion systems (i.e. powertrains including internal combustion engines, electric and hybrid) using AVL specialist instrumentation.

FAIR REVIEW OF THE BUSINESS

Although the company's core business remains consistent, customers are facing major changes in the products they are developing due to governmental and public pressure to provide alternative propulsion solutions such as electric, hybrid-electric and fuel cell-electric. The company wholeheartedly supports this major change in the motor industry to drive global reduction of carbon dioxide and pollutant emission. Our testing product portfolio already includes new products and services directly tailored to this need. The staff skills profile and recruiting procedures are being acted on in a proactive manner to support this. The company has a healthy order book and is in a strong financial position going into 2019. We are actively involved in discussion with customers on their plans and requirements for 2019 and beyond.

The company has been working on a number of significant projects for its larger customers and continues to develop its links within the UK automotive industry and academic/research institutions.

The key financial performance indicators during the year and at year end are as follows:

	31 December 2018	31 December 2017
Revenue	65.42m	86.42m
Gross Profit Margin	9.10%	8.35%
Operating Profit / Revenue	6.42%	2.04%
Order intake	50.60m	135.37m

Revenue has fallen to £65.42m, a 24% decrease over the previous year. This is mainly due to a reduction in project income. Consequently, the gross profit margin has increased to 9.10% (2017: 8.35%).

In order to support the growth of the business the average staff headcount has increased to 185 (2017: 146). This has resulted in an increase in staff costs of 19.71%. The company continues to invest in and develop its team, and has the strategy of only recruiting the highest calibre of staff.

Our group vision & mission is to provide leading technology and superior service to our customers for mobility in a better world.

Mission: We provide leading technology and superior service to our customers for mobility in a better world.

Guiding Principles: Clean. Affordable. Connected Intelligent.

The aim of our business strategy is to focus and align the whole organisation and all our activities towards our future challenges.

Strategic areas for future growth include:

1. Powertrain Integrated into Vehicle

The company's products and services are increasingly tailored to support the development of total powertrain solutions fully integrated into the vehicle. We enable delivery of the powertrain including attributes related to the complete driving experience, environmental impact and safety. We are also expanding our portfolio to include testing of emerging technologies such as Advanced Driver-Assistance Systems (ADAS), Autonomous Driving and zero emission technologies.

2. Integrated and Open Development Platform

We are pioneering a new software concept allowing the seamless integration of vehicle simulation tools with our testing hardware. In this way we link the real and virtual worlds. This will enable our customers to test their powertrain over a wider range of conditions in less time.

**Strategic Report
for the year ended 31 December 2018**

3. Production Orientation

We are expanding our products and services to support the whole product life cycle. Our product strategy is to digitally link design, validation, production and in-use phases.

4. Global Execution and Support

Many of our customers are global organisations. In response to this we continue to expand our global account services and optimise the mix of local (UK) and global supply.

5. Customer Orientation and Efficiency

Customer success is key to our continued business. We are group leaders in the concepts application of Value Creation and Efficiency programmes. These key business tools ensure that our products and services deliver maximum benefits in our customers' own business environments

The company continually monitors developments and aims to follow best practice.

The company has built an excellent team of employees on whom its success has been built. The directors would like to take this opportunity to thank all the team for their dedication and support during the year.

The business would not function without the engagement and commitment of its people and much effort is put into ensuring our team members are both protected and consulted as the company organisation continues to expand and develop. The company is keen to attract and retain quality team members and to offer them attractive and rewarding careers.

AVL UK Limited is an equal opportunities employer and we have appropriate policies for considering applications by disabled persons and for dealing with those circumstances where a member of staff becomes disabled.

The company operates a framework for employee information and consultation. Regular meetings are held between management and employees at a local level to allow a free flow of information and ideas.

PRINCIPAL RISKS AND UNCERTAINTIES

The risks associated with the United Kingdom's decision to leave the European Union will continue to be monitored. The AVL group is an inward investor into the UK industry and this will remain the situation post BREXIT.

The main risks associated with BREXIT as identified by the directors are:

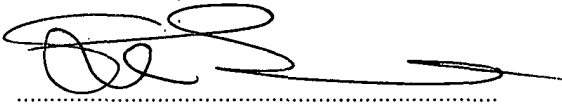
- 1) Uncertainty relating to future confidence/growth of the automotive industry in the UK.
- 2) The ability to recruit and retain skilled labour and engineers from the EU.
- 3) Any reduction in the automotive industry's appetite to conduct research and development work in the United Kingdom.
- 4) Volatility of currency exchange rates.
- 5) Free trade and market access to products and services within UK and European Union.

**Strategic Report
for the year ended 31 December 2018**

There is already some evidence of investment reduction in the UK automotive industry with an associated risk of reduced future revenue. To help mitigate this risk AVL United Kingdom Limited has targeted future customers which are outside of the traditional Automotive manufacturing sector and are championing new automotive propulsion technologies. In addition, new automotive legislation and technologies are driving rapid development of new testing technologies in which AVL continues to lead the market with new product.

In order to minimise the company's exposure to volatility in exchange rate fluctuations, the management of the ultimate holding company regularly enter into forward exchange contracts on behalf of AVL United Kingdom Limited.

ON BEHALF OF THE BOARD:



S M Sweeney - Secretary

Date: 3-5-19

**Report of the Directors
for the year ended 31 December 2018**

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

DIVIDENDS

The total distribution of dividends for the year ended 31 December 2018 is £nil.

FUTURE DEVELOPMENTS

The directors will continue with the policies covered in the Strategic Report. They consider that the forthcoming year will show a growth in sales and earnings from continuing operations.

DIRECTORS

The directors shown below have held office during the whole of the period from 1 January 2018 to the date of this report.

H O List
A Ciriello

EXPOSURE TO CASH FLOW, LIQUIDITY, CREDIT AND PRICE RISK

Liquidity and cashflow risk

The objective of the company in managing liquidity risk is to ensure that it can meet its financial obligations as and when they fall due. The company is in a strong financial position and has agreed facilities to allow it to meet its financial obligations through operating cash flows.

Credit risk

The company may offer credit terms to its customers which allow payment of the debt after delivery of goods. The company is at risk to the extent that a customer may be unable to pay the debt on the specified due date. This risk is mitigated by the strong on-going customer relationships and effective credit control procedures.

Price risk

Price risk arises because of the volatile nature of purchase prices for goods, materials and services. This risk is mitigated by the fact that the company's main supplier is the ultimate holding company. This allows the effect of price risk to be managed on a group wide basis.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Strategic Report, the Report of the Directors 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 the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable 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 directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**Report of the Directors
for the year ended 31 December 2018**

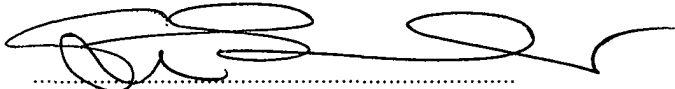
STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

So far as the directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

AUDITORS

The auditors, Banks Sheridan, will be proposed for re-appointment at the forthcoming Annual General Meeting.

ON BEHALF OF THE BOARD:



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S M Sweeney - Secretary

Date: 3 - 5 - 19

Report of the Independent Auditors to the Members of AVL United Kingdom Ltd

Opinion

We have audited the financial statements of AVL United Kingdom Ltd (the 'company') for the year ended 31 December 2018 which comprise the Income Statement, Other Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and Notes to the Financial Statements, 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 Financial Reporting Standard 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; 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 under those standards are further described in the Auditors' 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.

Other information

The directors are responsible for the other information. The other information comprises the information in the Strategic Report and the Report of the Directors, but does not include the financial statements and our Report of the Auditors thereon.

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.

Opinion 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 Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Report of the Directors have been prepared in accordance with applicable legal requirements.

**Report of the Independent Auditors to the Members of
AVL United Kingdom Ltd**

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 Report of the Directors.

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

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

Responsibilities of directors

As explained more fully in the Statement of Directors' Responsibilities set out on page five, 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 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.

Auditors' 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 a Report of the Auditors 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 Report of the Auditors.

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 a Report of the Auditors 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.

SP Banks

Stuart Banks FCA (Senior Statutory Auditor)
for and on behalf of Banks Sheridan (Statutory Auditor)
Datum House
Electra Way
Crewe
Cheshire
CW1 6ZF

Date: 22/5/2019

**Income Statement
for the year ended 31 December 2018**

	Notes	2018 £	2017 £
TURNOVER	3	65,423,144	86,427,435
Cost of sales		(59,407,251)	(79,204,222)
GROSS PROFIT		6,015,893	7,223,213
Administrative expenses		(5,633,542)	(5,527,720)
		382,351	1,695,493
Other operating income	4	38,000	69,125
OPERATING PROFIT	6	420,351	1,764,618
Interest receivable and similar income	7	87,728	125,021
PROFIT BEFORE TAXATION		508,079	1,889,639
Tax on profit	8	(110,736)	(390,314)
PROFIT FOR THE FINANCIAL YEAR		397,343	1,499,325

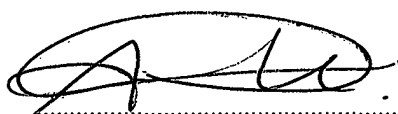
**Other Comprehensive Income
for the year ended 31 December 2018**

	Notes	2018 £	2017 £
PROFIT FOR THE YEAR		397,343	1,499,325
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>397,343</u>	<u>1,499,325</u>

Statement of Financial Position
31 December 2018

	Notes	2018 £	2017 £
FIXED ASSETS			
Intangible assets	10	14,968	17,513
Tangible assets	11	271,905	141,089
		<u>286,873</u>	<u>158,602</u>
CURRENT ASSETS			
Stocks	12	388,573	345,824
Debtors	13	32,762,590	35,046,053
Cash at bank and in hand		440,031	218,428
		<u>33,591,194</u>	<u>35,610,305</u>
CREDITORS			
Amounts falling due within one year	14	(25,735,036)	(28,383,976)
NET CURRENT ASSETS		<u>7,856,158</u>	<u>7,226,329</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		8,143,031	7,384,931
PROVISIONS FOR LIABILITIES	17	(1,803,164)	(1,442,407)
NET ASSETS		<u><u>6,339,867</u></u>	<u><u>5,942,524</u></u>
CAPITAL AND RESERVES			
Called up share capital	18	4,180,000	4,180,000
Share premium	19	11,248	11,248
Retained earnings	19	2,148,619	1,751,276
SHAREHOLDERS' FUNDS	22	<u><u>6,339,867</u></u>	<u><u>5,942,524</u></u>

The financial statements were approved by the Board of Directors on 3-5-19 and were signed on its behalf by:



A Ciriello - Director

**Statement of Changes in Equity
for the year ended 31 December 2018**

	Called up share capital £	Retained earnings £	Share premium £	Total equity £
Balance at 1 January 2017	4,180,000	1,751,951	11,248	5,943,199
Changes in equity				
Dividends	-	(1,500,000)	-	(1,500,000)
Total comprehensive income	-	1,499,325	-	1,499,325
Balance at 31 December 2017	<u>4,180,000</u>	<u>1,751,276</u>	<u>11,248</u>	<u>5,942,524</u>
Changes in equity				
Total comprehensive income	-	397,343	-	397,343
Balance at 31 December 2018	<u><u>4,180,000</u></u>	<u><u>2,148,619</u></u>	<u><u>11,248</u></u>	<u><u>6,339,867</u></u>

**Notes to the Financial Statements
for the year ended 31 December 2018**

1. STATUTORY INFORMATION

AVL United Kingdom Ltd is a private company, limited by shares, registered in England and Wales. The company's registered number and registered office address can be found on the Company Information page.

2. ACCOUNTING POLICIES

General information

AVL United Kingdom Limited ('The Company') is part of a group headed up by an Austrian parent company. The company is primarily engaged in the design, supply, commissioning and service support of engine test facilities using AVL specialist instrumentation.

The company is a private company limited by shares and is incorporated in England. The address of the registered office is Avon House, Hartlebury Trading Estate, Hartlebury, Worcestershire, DY10 4JB.

Statement of compliance

The financial statements of AVL United Kingdom Ltd 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 Republic of Ireland" ("FRS 102") and the Companies Act 2006.

Summary of significant accounting policies

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

Basis of preparation

The financial statements are prepared on the going concern basis under the historical cost convention and comply with the Financial Reporting Standards of The Financial Reporting Council and Companies Act 2006.

Going concern

After reviewing the company's order book and forecasts, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The company therefore continues to adopt the going concern basis in preparing its financial statements.

Revenue recognition

Revenue is recognised to the extent that the company obtains the right to consideration in exchange for its performance. Revenue comprises the fair value of consideration received and receivable exclusive of value added tax and after discounts and rebates.

Revenue from the sale of standard products is recognised when the significant risks and rewards of ownership of the goods has transferred to the buyer. This is usually at the point the customer has signed for the delivery of the goods.

Revenue from the provision of project services and service contracts is recognised by reference to the stage of completion of a project. The stage of completion of a project is measured by comparing the costs incurred to date to the total estimated project costs. Revenue is only recognised to the extent of recoverable expenses when the outcome of a project cannot be estimated reliably. When it is expected that total project costs will exceed the total project revenue the expected loss is recognised as an expense immediately through a provision for future losses.

The company has taken advantage of the following disclosure exemption in preparing these financial statements, as permitted by FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- the requirements of Section 7 Statement of Cash Flows.

**Notes to the Financial Statements - continued
for the year ended 31 December 2018**

2. ACCOUNTING POLICIES - continued

Tangible fixed assets

Tangible fixed assets are stated at historical cost less accumulated depreciation and accumulated impairment losses. Cost includes costs directly attributable to making the asset capable of operating as intended.

Depreciation is provided at the following annual rates so as to write off their cost less residual amounts over their estimated useful economic lives. Assets not carried at fair value are also reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Leasehold property improvements	- 20% on cost
Office and computer equipment	- at varying rates on cost
Motor vehicles	- 25% on cost

The residual values and useful lives of assets are reviewed and adjusted if appropriate at the end of each reporting period.

Intangible assets

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight line method, to allocate the depreciable amount of the assets to their residual values over their estimated useful lives as follows:

Computer software	- at varying rates on cost
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Amortisation is charged to administrative expenses in the Income Statement.

Stocks

Stocks are stated at the lower of cost and selling price less costs to complete and sell. Cost includes all costs of purchase and also other costs incurred in bringing stock to its present location and condition. Cost is calculated using the first-in, first-out basis.

Provision is made for damaged, obsolete and slow-moving stock where appropriate.

**Notes to the Financial Statements - continued
for the year ended 31 December 2018**

2. ACCOUNTING POLICIES - continued

Taxation

The tax expense represents the sum of the current tax expense and deferred tax expense. Current tax assets are recognised when tax paid exceeds the tax payable.

Current tax is based on taxable profit for the year. Taxable profit differs from the profit shown in the income statement because it excludes certain items of non-taxable income or expenses. Adjustments are also made for items of income or expense that are taxable or deductible in other periods. Current tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted by the reporting period end date.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax liabilities are recognised in respect of all timing differences that exist at the reporting date. Timing differences are differences between taxable profits and total comprehensive income as stated in the financial statements that arise from the inclusion of income and expenses in tax assessments in the periods different from those in which they are recognised in the financial statements.

Deferred tax assets are recognised only to the extent that it is probable that they will be recovered by the reversal of deferred tax liabilities or using other future taxable profits.

Current and deferred tax is charged or credited in profit or loss, except when it relates to items credited or charged directly to other comprehensive income or equity, in which case the tax follows the transaction or event it relates to and is also charged or credited directly to other comprehensive income, or equity.

Current tax assets and current tax liabilities and deferred tax assets and deferred tax liabilities are offset, if and only if, there is a legally enforceable right to set off the amounts and the entity intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Foreign currencies

The financial statements are prepared in pound sterling which is the financial currency of the company.

Foreign currency transactions are initially recorded by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

Monetary assets and liabilities denominated in foreign currency at the balance sheet are translated using the closing rate. Foreign currency 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 Income Statement.

Leases

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases.

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

**Notes to the Financial Statements - continued
for the year ended 31 December 2018**

2. ACCOUNTING POLICIES - continued

Employee benefits

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

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

Trade and other receivables within one year

Trade and other receivables including amounts owing from group companies, with no stated interest rate are recorded at transaction price.

Trade and other creditors

Trade and other creditors are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade creditors are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand and other short-term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash.

**Notes to the Financial Statements - continued
for the year ended 31 December 2018**

2. ACCOUNTING POLICIES - continued

Impairment of assets

Assets not measured at fair value are reviewed for any indications that the asset maybe impaired at each balance sheet date. If such indications exists the recoverable amount of the asset or the assets cash generating unit is estimated and compared to the carrying amount. Where the carrying amount exceeds its recoverable amount, an impairment loss is recognised in the Income Statement.

Any losses arising from impairment are recognised in the Income Statement in other administrative expenses.

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 receivables, cash and bank balances are initially recognised at transaction price and are subsequently carried at amortised cost, using the effective interest method, 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.

(ii) Financial liabilities

Basic financial liabilities, including trade and other payables and loans from fellow group companies, are initially recognised at transaction price and subsequently carried at amortised cost, using the effective interest rate method, 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.

Dilapidation costs

A provision is made to cover the expected costs of making good property dilapidations on leasehold properties where such work is required by the terms of the lease agreement.

Provisions for liabilities

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

Notes to the Financial Statements - continued
for the year ended 31 December 2018

2. ACCOUNTING POLICIES - continued

Key accounting judgements and estimates

The preparation of these financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

Judgements and estimates are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances. 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 year are discussed below:

(i) Costs to completion on projects and service contracts

Expected future costs to completion and contingency provisions are calculated on a project by project basis based on the current status of the project and the latest available project appraisals.

(ii) Warranty provision

A provision is included to cover the labour and third party costs element of any warranty work outstanding at the end of the reporting period. This provision requires management's best estimate of the likely costs to be incurred. Such estimates are established using historical information on the average cost of warranty claims as a percentage of turnover.

3. TURNOVER

The turnover and profit before taxation are attributable to the one principal activity of the company.

An analysis of turnover by class of business is given below:

	2018 £	2017 £
Projects	49,354,366	70,695,813
Standard products	6,989,617	8,487,229
Service	9,048,506	7,244,393
AST	30,655	-
	<u>65,423,144</u>	<u>86,427,435</u>

During the year the company made sales to overseas companies of £3,032,083 (2017: £128,974).

4. OTHER OPERATING INCOME

	2018 £	2017 £
Management charges received from group companies	38,000	68,819
Commissions received	-	306
	<u>38,000</u>	<u>69,125</u>

5. EMPLOYEES AND DIRECTORS

	2018 £	2017 £
Wages and salaries	8,344,758	6,975,918
Social security costs	1,094,860	921,104
Other pension costs	416,131	335,392
	<u>9,855,749</u>	<u>8,232,414</u>

Notes to the Financial Statements - continued
for the year ended 31 December 2018

5. **EMPLOYEES AND DIRECTORS - continued**

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

	2018	2017
Management	9	8
Projects	60	49
Service and maintenance	70	51
Sales and administration	46	38
	<u>185</u>	<u>146</u>

The company operates a defined contribution pension scheme for the benefit of employees and directors. The assets of the scheme are administered by an independent pensions provider. Pension payments are recognised as an expense during the year and amounted to £416,131 (2017: £335,392).

	2018 £	2017 £
Directors' remuneration	309,266	244,401
Directors' pension contributions to money purchase schemes	<u>32,179</u>	<u>31,318</u>

The number of directors to whom retirement benefits were accruing was as follows:

	2018	2017
Money purchase schemes	<u>1</u>	<u>1</u>

Information regarding the highest paid director is as follows:

	2018 £	2017 £
Emoluments etc	309,266	244,401
Pension contributions to money purchase schemes	<u>32,179</u>	<u>31,318</u>

6. **OPERATING PROFIT**

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

	2018 £	2017 £
Rent	204,331	211,609
Depreciation - owned assets	91,853	72,985
Computer software amortisation	8,440	7,610
Auditors remuneration	37,000	35,000
Foreign exchange differences	(405,560)	(382,109)
Motor vehicle leasing	311,932	292,415
Fees payable to the company's auditor for other services	<u>8,930</u>	<u>1,900</u>

Notes to the Financial Statements - continued
for the year ended 31 December 2018

7. **INTEREST RECEIVABLE AND SIMILAR INCOME**

	2018	2017
	£	£
Deposit account interest	2,674	302
Interest receivable from group companies	85,030	124,632
Corporation tax interest received	24	87
	<u>87,728</u>	<u>125,021</u>

8. **TAXATION**

Analysis of the tax charge

The tax charge on the profit for the year was as follows:

	2018	2017
	£	£
Current tax:		
UK corporation tax	106,266	346,295
Adjustment relating to prior years	-	11,440
Total current tax	<u>106,266</u>	<u>357,735</u>
Deferred tax	<u>4,470</u>	<u>32,579</u>
Tax on profit	<u>110,736</u>	<u>390,314</u>

UK corporation tax has been charged at 19% (2017 - 19.25%).

Reconciliation of total tax charge included in profit and loss

The tax assessed for the year is higher than the standard rate of corporation tax in the UK. The difference is explained below:

	2018	2017
	£	£
Profit before tax	<u>508,079</u>	<u>1,889,639</u>
Profit multiplied by the standard rate of corporation tax in the UK of 19% (2017 - 19.250%)	96,535	363,756
Effects of:		
Expenses not deductible for tax purposes	14,201	7,273
Adjustments to tax charge in respect of previous periods	-	11,440
Effect of changes of tax rate on deferred tax opening position	-	7,845
Total tax charge	<u>110,736</u>	<u>390,314</u>

9. **DIVIDENDS**

	2018	2017
	£	£
Interim	<u>-</u>	<u>1,500,000</u>

Notes to the Financial Statements - continued
for the year ended 31 December 2018

10. INTANGIBLE FIXED ASSETS

	Computer software £
COST	
At 1 January 2018	709,463
Additions	5,895
At 31 December 2018	715,358
AMORTISATION	
At 1 January 2018	691,950
Amortisation for year	8,440
At 31 December 2018	700,390
NET BOOK VALUE	
At 31 December 2018	14,968
At 31 December 2017	17,513

11. TANGIBLE FIXED ASSETS

	Leasehold property improvements £	Plant and machinery £	Office and computer equipment £	Motor vehicles £	Totals £
COST					
At 1 January 2018	5,218	354,230	435,828	46,556	841,832
Additions	10,659	107,975	104,035	-	222,669
At 31 December 2018	15,877	462,205	539,863	46,556	1,064,501
DEPRECIATION					
At 1 January 2018	87	294,817	382,730	23,109	700,743
Charge for year	3,175	39,538	40,271	8,869	91,853
At 31 December 2018	3,262	334,355	423,001	31,978	792,596
NET BOOK VALUE					
At 31 December 2018	12,615	127,850	116,862	14,578	271,905
At 31 December 2017	5,131	59,413	53,098	23,447	141,089

12. STOCKS

	2018 £	2017 £
Stocks	227,712	163,448
Project work-in-progress	160,861	182,376
	388,573	345,824

The replacement value of stocks excluding work-in-progress is in the region of £390,000 (2017: £380,000).

Stocks are stated after impairment of £159,836 (2017: £215,855).

Notes to the Financial Statements - continued
for the year ended 31 December 2018

13. **DEBTORS**

	2018 £	2017 £
Amounts falling due within one year:		
Trade debtors	8,387,106	21,928,510
Amounts recoverable on projects	3,697,873	7,940,041
Other debtors	4,612	186,979
Amounts due from group companies	10,897,157	90,314
AVL List GmbH loan	8,920,044	4,253,841
Amounts due from holding company	1,000	1,000
Tax	23,733	-
Prepayments and accrued income	710,466	520,300
	<u>32,641,991</u>	<u>34,920,985</u>
Amounts falling due after more than one year:		
Deferred tax asset	<u>120,599</u>	<u>125,068</u>
Aggregate amounts	<u>32,762,590</u>	<u>35,046,053</u>

The AVL List GmbH loan is unsecured and has no fixed date of repayment and is repayable on demand. Interest has been charged at a rate of 1% above 3 month LIBOR rate.

Amounts owed by group companies are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

The deferred tax asset due after more than one year consists of the tax effect of the following timing differences in respect of:

	2018 £	2017 £
Other short term timing differences	17,028	5,946
Excess of depreciation over tax allowances of fixed assets	103,571	119,122
	<u>120,599</u>	<u>125,068</u>

14. **CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	2018 £	2017 £
Trade creditors	1,045,377	1,094,579
Tax	-	149,295
Social security and other taxes	423,885	351,360
VAT	4,382,323	6,493,778
Other payables	-	323,967
Amounts due to group companies	3,440,491	690,862
Payments on account	15,959,546	18,625,714
Accruals	483,414	654,421
	<u>25,735,036</u>	<u>28,383,976</u>

Amounts owed to group companies are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

Notes to the Financial Statements - continued
for the year ended 31 December 2018

15. LEASING AGREEMENTS

Minimum lease payments under non-cancellable operating leases fall due as follows:

	2018 £	2017 £
Within one year	541,071	510,924
Between one and five years	367,478	658,031
	<u>908,549</u>	<u>1,168,955</u>

16. FINANCIAL INSTRUMENTS

The carrying amounts of the company's financial instruments are as follows;

	2018 £	2017 £
Financial assets that are debt instruments measured at amortised cost	28,674,684	26,679,072
Financial liabilities measured at amortised cost	(25,735,036)	(28,383,976)

17. PROVISIONS FOR LIABILITIES

	2018 £	2017 £
Other provisions		
Warranty provision	1,449,522	1,017,056
Provision for foreseeable losses	122,937	196,530
Provision for dilapidations	140,000	140,000
Provision for leave pay	90,705	88,821
	<u>1,803,164</u>	<u>1,442,407</u>

	Other provisions £
Balance at 1 January 2018	1,442,407
Utilised in the year	(215,495)
New provision in the year	576,252
Balance at 31 December 2018	<u>1,803,164</u>

The warranty and foreseeable loss provisions are made in accordance with the company's accounting policies disclosed in note 2. The majority of the warranty provision and all the loss provision is expected to be utilised in the next financial year.

A provision of £140,000 (2017: £140,000) has been recognised for the future cost of making good dilapidations. This expenditure is expected to be incurred when the leases expire in 2020.

The leave pay provision of £90,705 represents holiday balances accrued as a result of services rendered in the current period and which employees are entitled to carry forward. The provision is measured as the salary cost payable for the period of absence.

Notes to the Financial Statements - continued
for the year ended 31 December 2018

18. **CALLED UP SHARE CAPITAL**

Allotted, issued and fully paid:		Nominal value: £1	2018 £	2017 £
Number:	Class:			
4,180,000	Ordinary		<u>4,180,000</u>	<u>4,180,000</u>

Ordinary shares are classified as equity.

19. **RESERVES**

	Retained earnings £	Share premium £	Totals £
At 1 January 2018	1,751,276	11,248	1,762,524
Profit for the year	397,343		397,343
	<u>2,148,619</u>	<u>11,248</u>	<u>2,159,867</u>

Retained earnings represent cumulative profits and losses net of dividends and other adjustments.

The share premium account represents the premium arising on the issue of shares, net of income costs.

Dividends and other distributions to the company's shareholders are recognised as liabilities in the financial statements in the period in which the dividends and other distributions are approved by the shareholders. These amounts are recognised in the Statements of Changes in Equity.

20. **ULTIMATE PARENT COMPANY**

The share capital is owned by AVL UK Holdings Limited, a company registered in England and Wales. The ultimate holding company is AVL List Capital and Consulting GmbH, a company registered in Austria.

21. **RELATED PARTY DISCLOSURES**

No related party disclosures are given in respect of transactions with group companies as the company is included in the consolidated financial statements of AVL List Capital and Consulting GmbH. A copy of these financial statements are available from AVL List GmbH, Hans-List-Platz 1, 8020 Graz Austria. There are no related parties other than group companies.

22. **RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**

	2018 £	2017 £
Profit for the financial year	397,343	1,499,325
Dividends	-	(1,500,000)
Net addition/(reduction) to shareholders' funds	<u>397,343</u>	<u>(675)</u>
Opening shareholders' funds	5,942,524	5,943,199
Closing shareholders' funds	<u>6,339,867</u>	<u>5,942,524</u>