Eaton Electrical Products Limited

Registered Number: 01342230

Report and Financial Statements

31 December 2017

Corporate information

Directors
R Howes
A Jackson
J Butters
M Carter

Auditors
Ernst & Young LLP
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5 George Square
Glasgow G2 1DY

Bankers
Deutsche Bank AG
1 Great Winchester Street
London
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Solicitors
Eversheds
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EC2V 7WS

Registered Office
Jephson Court
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Queensway
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Strategic report

The Directors present their strategic report for the year ended 31 December 2017.

Principal activities

The principal activities of the company during the year were the design, production and distribution of products designed to protect property and people, including electronic sounders for use in fire alarm and security systems and associated equipment, intruder alarm and data communication systems, and circuit protection products.

Business review

Turnover for the year ended 31 December 2017 increased from 2016 by 69.9% to £62.4m. Gross margin increased by 66.7% to £19,991k. This increase reflects the impact of the acquisition of other group companies during 2016 and 2017. Administration expenses increased from £6,764k in 2016 to £16,560k in 2017 also as a result of the changes in company structure.

The profit for the year, after taxation, is £8,706,000 (2016 – £7,246,000).

In September 2017, as part of a legal entity simplification program in the UK the company entered into the following transactions:

- Purchase of the assets and liabilities of Cooper Bussmann (UK) Limited for £98,600,000 in exchange for a loan note.
- The excess of consideration paid over the net assets acquired has been added to investments in subsidiary undertakings.
- Subsequent to the above trade transfer, the intercompany loan notes were forgiven.

Following these steps, the company reviewed the carrying value of its investments and has made additional provisions against investments in group undertakings of £142,879,000.

The existing and acquired parts of the business traded profitably in the year despite subdued global markets, which have meant an ongoing emphasis on cost control.

Eaton Corporation undertook an internal IP restructuring that was initiated during the year ended 31 December 2017. As part of the project, Eaton Electrical Products Limited and Eaton Intelligent Power Limited entered into intercompany IP transfer agreements. The subject of the transfer included manufacturing process IP, technology IP, and related know how. This was not recorded as an asset historically on the balance sheet of Eaton Electrical Products Limited because it was internally generated.

The gain on the transfer of IP has been recorded through the income statement during the year ended 31 December 2017. The gain was calculated using the relief from royalty method which is an acceptable method to assess an arm's length charge in accordance with UK accounting standards.

Results and dividends

The profit for the year after taxation amounted to £8,706,000 (2016 profit of £7,426,000). The directors do not recommend a final dividend (2016 - £nil).The company acquisition of other group companies resulted in an increase in turnover of £25,699,000 (69.9% increase) to £62,459,000. This is also the reason for the increase in costs year on year.

Strategic report (cont)

Results and dividends (continued)

Key Performance Indicators	Definition	Ratio 2017	2016
Return on sales	Profit before tax/Turnover	17.6%	14.1%
Gross Profit%	Gross Profit/Turnover	32.0%	32.6%
Operating Profit %	Operating Profit/Turnover	17.6%	13.9%
Operating Profit per employee (£'000)	Operating Profit/ number of employees	48.97	27.05

The directors are satisfied with the performance of the company during the year.

Principal risks and uncertainties

The company is exposed to a number of financial risks outlined in the financial risk management section of the Directors' report.

Furthermore, the management of the business and the execution of the company's strategy are subject to a number key business risks affecting the company, which are set out below:

- The company is a wholly-owned subsidiary and follows group best practice as regards the acceptance and management of risk. The directors and the management team continually review and evaluate the risks that the company is facing.

The principal risks and uncertainties facing the company are broadly grouped as competitive, legislative and financial.

Competitive risks

The industry is very competitive in the UK and in export markets in Europe. The company is faced with very strong competition. Pricing pressures continue to dominate new business enquiries. The company has benefitted from leveraging the group's strategic sourcing resources and supply chain. This is an evolving process which is expected to benefit the Eaton business in the future. The company aims to expand its market offering with new products and support its customers with excellent service levels, quality of its products, efficient design and competitive pricing.

Legislative risks

The company is fully integrated into the Eaton methodology and best practice in Health and Safety, Environmental and Code of Ethics. Management and staff have been trained to the required standard and internal and external audits are regularly carried out to ensure these standards are maintained.

The company is compliant with the directives, Restriction of Hazardous Substances (RoHS) and the Waste Electrical and Electronic Equipment (WEEE).

Financial risks

The company's currency risk is controlled by natural hedges, under the guidance of Eaton Treasury department and where there is an excess risk, the company will take out foreign currency contracts accordingly.

By order of the board

Andrew Jackson
Director
12 October 2018

Registered No. 01342230

Directors' report

The directors present their report and financial statements for the year ended 31 December 2017.

Directors

R Howes
A Jackson
J Butters
M Carter
A Upton (Resigned 17 January 2018)

Dividends

The directors do not recommend that a dividend is paid (2016 – £nil).

Future developments

The full impact of the acquisition of trades from other group companies in 2016 and 2017 will be realised in 2018 and this is expected to improve the trading results of the company further. Many of the company's markets remain highly competitive, but the expanded business is well placed to manage these challenges.

Financial risk management

The company's policy does not permit trading in any financial instruments. The company's principal financial instruments comprise of cash, intercompany deposits and or borrowings, the main purpose of which is to provide finance for its normal trading operations and to reduce the impact of currency exchange rate movements on trading results.

The company has various other financial instruments such as trade debtors and creditors that arise directly from its trading operations.

The main risks arising from the company's financial instruments are liquidity, foreign currency cash flow and credit risks. The company has clear policies for managing each of these risks, as summarised below.

Liquidity risk

Liquidity risk is the risk that an organisation may not have, or not be able to raise, cash funds when needed. The company aims to mitigate liquidity risk by managing cash generation by its operations and applying cash collection targets. Investment is carefully controlled, with authorisation limits operating at different levels up to group board level and with hurdle rates of return and cash payback periods applied as part of the investment appraisal process.

The company participates in the overall world-wide group's funding strategy managed at corporate treasury level. The company participates in a UK cash pool. The objective is to maintain a balance between continuity of funding and flexibility.

Foreign currency cash flow risk

The company buys and sells goods and services denominated in currencies other than sterling. The company manages such receipts and payments through the operation of other denominated currency bank accounts. As a result of the value of the company's non-sterling revenues, purchases, financial assets and liabilities, cash flows can be affected significantly by movements in exchange rates.

The company seeks, where appropriate, to mitigate its exposure to currency movements by working with the world-wide group's treasury department to enter into forward currency contracts, denominated in the same currency as the operating funds flow (against sterling), to match transactional exposures on the balance sheet and future cash flow exposures anticipated in the business. Such forward contracts are entered into on the basis of regularly updated forecast information on the level of trading in each denominated currency.

Directors' report (cont.)

Financial risk management (continued)

Credit risk

The risk of financial loss due to a counterparty's failure to honour its obligations arises principally in relation to transactions where the company provides goods and services on deferred credit terms.

Company policies are aimed at minimising such losses, and require that deferred terms are granted only to customers who demonstrate an appropriate payment history and satisfy creditworthiness procedures. Individual exposures are monitored with customers subject to credit limits to ensure that the company's exposure to bad debts is not significant. Goods may be sold on a cash-with-order basis to mitigate credit risk. Some operating units purchase bad debt insurance where the cost is not excessive when compared to the risks covered.

In agreeing annual budgets, operating units set limits for debtors' days and doubtful debts expense against which performance is monitored at both operating unit and company level. A process for alerting management to operations failing to meet monthly cash collection targets serves to reduce the likelihood of an unmanaged concentration of credit risk.

Research and development

The company has continued its programme of research and development to improve a number of its existing products and to develop new products for the future.

Employees

The company is committed to the principle of equal opportunity in employment. Our employment policies for recruitment, selection, training, development and promotion of employees are designed to ensure no application receives less favourable treatment on the grounds of age, race, nationality, religion, political beliefs, disability, sex or marital status.

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the company continues and that appropriate training is arranged. It is the policy of the company that training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

Consultation with employees or their representatives has continued at all levels, with the aim of ensuring that their views are taken into account when decisions are made that are likely to affect their interests and that all employees are made aware of the financial and economic performance of their business units and of the company as a whole.

Employee involvement

The employee involvement programme has been maintained and communications between management and employees remain good. Total quality management teams, briefing groups and joint consultative committees continue to operate in all the main plants.

Going concern

The directors have undertaken an exercise to review the appropriateness of the continued use of the Going Concern basis. The company's business activities, a review of the business and a description of the principal risks and uncertainties, together with the company's financial risk management processes and narrative regarding its exposure to key financial risks are outlined above.

Directors' report (cont.)

Going concern (continued)

The company participates in the group's centralised treasury arrangements, which operate across the group and so shares banking arrangements with its parent and fellow subsidiaries. Under such an arrangement, short term cash flow (both deficits and excesses) are managed by the group treasury to optimise the group's overall cash position. The directors have made enquiries with group treasury that there is no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of Eaton group to continue as a going concern or its ability to continue with the current banking arrangements.

The directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook. After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the directors continue to adopt the going concern basis in preparing the annual report and financial statements.

Directors' indemnity provisions

The company has arranged insurance cover to indemnify one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report.

Auditors

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

Disclosure of information to the 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, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the Company's auditor, 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 is aware of that information.

On behalf of the Board

A Jackson
Director
12 October 2018

Directors' Responsibilities Statement

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with FRS 102 (United Kingdom Accounting Standards and applicable law).

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 those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF Eaton Electrical Products Limited

Opinion

We have audited the financial statements of Eaton Electrical Products Limited for the year ended 31 December 2017 which comprise the Income statement, Statement of comprehensive income, Statement of changes in equity, Statement of financial position and the related notes 1 to 24, 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 company's affairs as at 31 December 2017 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 Auditor's responsibilities for the audit of the financial statements section of our report below. 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 AUDITOR'S REPORT TO THE MEMBERS OF Eaton Electrical Products Limited (continued)

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 this 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 the 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 strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have 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 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 AUDITOR'S REPORT TO THE MEMBERS OF Eaton Electrical Products Limited (continued)

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 7, 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 https://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

Ernst & Young LLP

Paul Copland (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

Glasgow

12 October 2018

Income statement

for the year ended 31 December 2017

	Notes	2017 £000	2016 £000
Turnover	3	62,459	36,760
Cost of sales		(42,468)	(24,770)
Gross Profit		19,991	11,990
Distribution costs		(826)	(112)
Administrative expenses		(16,560)	(6,764)
Gain on disposal of intangible assets	4	8,365	-
Operating Profit	4	10,970	5,114
Interest receivable and similar income	8	53	80
Profit on ordinary activities before taxation		11,023	5,194
Tax on profit on ordinary activities	9	(2,317)	2,232
Profit for the financial year		8,706	7,426

All amounts relate to continuing operations.

Statement of comprehensive income

for the year ended 31 December 2017

	Notes	2017 £000	2016 £000
Profit for the year	17	8,706	7,426
Total Comprehensive income for the year		8,706	7,426

Statement of changes in equity

for the year ended 31 December 2017

	Called up share capital (Note 16) £000	Profit and loss account (Note 17) £000	Capital contribution reserve (Note 17) £000	Total equity £000
At 1 January 2016	40	15,283	-	15,323
Profit for the year	-	7,426	-	7,426
Other comprehensive results	-	-	-	-
Total comprehensive income for the year	-	7,426	-	7,426
Capital contribution in the year	-	-	105,145	105,145
Group reorganisation (see note 12):				
Profit on forgiveness of intercompany loans	-	34,163	-	34,163
Provision against investments in group undertakings	-	(26,658)	-	(26,658)
At 31 December 2016	40	30,214	105,145	135,399
Profit for the year		8,706		8,706
Other comprehensive results	-	-	-	-
Total comprehensive income for the year	-	8,706	-	8,706
Group reorganisation (see note 12):				
Profit on forgiveness of intercompany loans	-	98,600	-	98,600
Provision against investments in group undertakings	-	(142,837)	-	(142,837)
At 31 December 2017	40	(5,317)	105,145	99,868

Statement of financial position

at 31 December 2017

	Notes	2017 £000	2016 £000
Fixed assets			
Tangible assets	10	5,992	2,279
Intangible assets	11	754	-
Investments	12	-	98,600
		6,746	100,879
Current assets			
Stocks	13	11,882	5,649
Debtors	14	122,792	46,796
Cash at bank and in hand		343	251
		135,017	52,696
Creditors: amounts falling due within one year	15	(41,895)	(18,176)
Net current assets		93,122	34,520
Total assets less current liabilities		99,868	135,399
Capital and reserves			
Called up share capital	16	40	40
Capital contribution reserve	17	105,145	105,145
Profit and loss account	17	(5,317)	30,214
		99,868	135,399

The financial statements were approved and authorised for issue by the board and were signed on its behalf by:

A Jackson
Director
12 October 2018

Notes to the financial statements

at 31 December 2017

1. Authorisation of financial statements and statement of compliance

Eaton Electrical Products Limited is a limited liability company incorporated and domiciled in England and Wales. These financial statements were prepared in accordance with Financial Reporting Standard 102 (FRS 102). The financial statements are prepared under the historical cost convention, unless otherwise indicated in the significant accounting policies below, and are presented in Sterling.

The financial statements of Eaton Electrical Products Limited for the year ended 31 December 2017 were authorised for issue by the board of directors on 12 October 2018 and the balance sheet was signed on the board's behalf by A Jackson.

2. Accounting policies

2.1 Basis of preparation

Eaton Electrical Products Limited has taken advantage of the exemption available under section 400 of the Companies Act 2006 from the requirement to prepare group financial statements as it is a wholly owned subsidiary of Eaton Corporation PLC, which prepares publicly available group financial statements which include the results of the Company and its subsidiaries. Eaton Electrical Products Limited financial statements therefore purely reflect the Company as an individual undertaking.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2017.

Eaton Electrical Products Limited has taken advantage of the following disclosure exemptions under FRS 102:

(a) the requirements of section 4 Statement of Financial Position- Paragraph 4.12 (a) (iv)

(b) the requirements of section 7 Statement of Cash Flows and Section 3 Financial Statement Presentation paragraph 3.17(d)

(c) Requirements of Section 33 Related Party Disclosures, paragraph 33.7

2.2 Judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

The following judgments have the most significant effect on amounts recognised in the financial statements.

Taxation

Management estimation is required to determine the amount of deferred tax assets that can be recognised based upon likely timing and level of future taxable profits together with assessment of the effect of future tax planning strategies.

Impairment of non-financial assets

The company assesses at each reporting date whether an asset may be impaired. If any such indication exists the company estimates recoverable amount of the asset. If it is not possible to estimate the recoverable amount of the individual asset, the company estimates, the recoverable amount of the cash-generating unit to which the asset belongs. The recoverable amount of an asset or cash-generating unit is the higher of its fair value less costs to sell and its value in use. If the recoverable amount is less than its carrying amount, the carrying amount of the asset is impaired and it is reduced to its recoverable amount through an impairment in profit and loss unless the asset is carried at a revalued amount where the impairment loss of a revalued asset is a revaluation decrease.

Notes to the financial statements (continued)

at 31 December 2017

2.2 Judgements and key sources of estimation uncertainty (continued)

Impairment of non-financial assets (continued)

An impairment loss recognised for all assets, including goodwill, is reversed in a subsequent period if and only if the reasons for the impairment loss have ceased to apply.

2.3 Significant accounting policies

(a) Revenue recognition

Revenue is recognised to the extent that the company obtains the right to consideration in exchange for its performance. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duty. Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on dispatch of the goods.

(b) Research and development costs

Research and development expenditure is written off as incurred.

(c) Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Cost comprises the aggregate amount paid and the fair value of any other consideration given to acquire the asset and includes costs directly attributable to making the asset capable of operating as intended.

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

Freehold buildings	–	over 30 years
Plant and machinery	–	4 to 7 years

Freehold land is not depreciated.

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable, and are written down immediately to their recoverable amount. Useful lives and residual values are reviewed annually and where adjustments are required these are made prospectively.

(d) Goodwill and Intangible Assets

The company establishes a reliable estimate of the useful life of goodwill arising on business combinations. This estimate is based on a variety of factors such as the expected use of the acquired business, the expected useful life of the cash generating units to which the goodwill is attributed, any legal, regulatory or contractual provisions that can limit useful life and assumptions that market participants would consider in respect of similar businesses. Goodwill is amortised on a straight line basis as follows :

Goodwill	–	over 10 years

It is reviewed for impairment at the end of its first full financial year following the acquisition and in other years if events or changes in circumstances indicate that the carrying value may not be recoverable.

(e) Investments

Shares in group undertakings

These comprise investments in subsidiaries and are recognised at cost less impairment.

Notes to the financial statements (continued)

at 31 December 2017

2.3 Significant accounting policies (continued)

(f) Provision for liabilities

A provision is recognised when Eaton Electrical Products Limited has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

Provisions for the expected costs of maintenance under guarantees are charged against profits when products have been invoiced. The effect of the time value of money is not material and therefore the provisions are not discounted.

Provisions for warranty costs are recognised at the date of sale of the relevant products, at the directors' best estimate of the expenditure required to settle the company's liability. In addition, if an issue was identified such that the product range needed to be recalled or reworked in some way, the anticipated costs of the total campaign were provided as soon as they could be readily ascertained.

(g) Stock and work in progress

Stocks are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition, as follows:

Raw materials: purchase cost on a first-in, first-out basis

Work in progress and finished goods: cost of direct materials and labour plus attributable overheads based on a first-in, first-out basis on a normal level of activity.

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

(h) Leasing and hire purchase

Rentals payable under operating leases are charged in the income statement on a straight line basis over the lease term. Lease incentives are recognised over the lease term on a straight line basis.

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

(i) Financial Instruments

Cash at bank and in hand

Cash and cash equivalents in the balance sheet comprise cash at banks and in hand and short term deposits with an original maturity date of three months or less.

Short-term debtors and creditors

Debtors and creditors with no stated interest rate and receivable or payable within one year are recorded at transaction price. Any losses arising from impairment are recognised in the income statement in operating expenses.

(j) Deferred tax

Deferred tax is recognised in respect of all timing differences which are differences between taxable profits and total comprehensive income that arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements, except that unrelieved tax losses and other deferred tax assets are recognised only to the extent that the directors consider that it probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Notes to the financial statements (continued)

at 31 December 2017

2.3 Significant accounting policies (continued)

(k) Pensions commitments

Defined contribution scheme

Contributions to defined contribution schemes are recognised in the income statement in the period in which they become payable.

(l) Going concern

The directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook. After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the directors continue to adopt the going concern basis in preparing the annual report and financial statements.

(m) Foreign currency

Transactions in foreign currencies are initially recorded in the entity's functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

(n) Merger accounting

Group reorganisations where the ultimate equity holders remain the same, and the rights of each equity holder, relative to the others, are unchanged; and no non-controlling interest in the net assets of the group is altered by the transfer, are accounted for using merger accounting. The carrying values of the assets and liabilities of the parties to the combination are not adjusted to fair value. The difference, if any, between the book value of the assets and liabilities and the consideration shall be shown as a movement in reserves. These movements shall be shown in the statement of changes in equity.

3. Turnover

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties and to fellow subsidiary undertakings.

Turnover is attributable to continuing activities in the UK.

The directors consider that the disclosure of turnover, net assets and profits by classes of business and by geographical market would be seriously prejudicial to the interests of the company.

Notes to the financial statements (continued)

at 31 December 2017

4. Operating Profit

This is stated after charging/(crediting):

	2017	2016
	£000	£000
Research and development expenditure written off	3,530	1,603
Depreciation of owned assets (see note 10)	341	170
Amortisation of goodwill (see note 11)	47	-
Gain on sale of intellectual property not previously capitalised (see below)	(8,365)	-
Foreign exchange (gain)	(131)	(9)
Operating lease rentals – land & buildings	297	272
Operating lease rentals – others	132	172
Auditors' remuneration (see note 5)	54	36

Eaton Corporation undertook an internal IP restructuring that was initiated during the year ended 31 December 2017. As part of the project, Eaton Electrical Products Limited and Eaton Intelligent Power Limited entered into intercompany IP transfer agreements. The subject of the transfer included manufacturing process IP, technology IP, and related know how. This was not recorded as an asset historically on the balance sheet of Eaton Electrical Products Limited because it was internally generated.

The gain on the transfer of IP has been recorded through the income statement during the year ended 31 December 2017. The gain was calculated using the relief from royalty method which is an acceptable method to assess an arm's length charge in accordance with UK accounting standards.

5. Auditor's remuneration

The Company paid the following amounts to its auditors in respect of the audit of the financial statements and for other services provided to the Company.

	2017	2016
	£000	£000
Audit of the financial statements	54	36

6. Staff costs

(a) Staff costs

Staff costs, including directors' remuneration, were as follows

	2017	2016
	£000	£000
Wages and salaries	6,861	4,527
Social security costs	729	466
Other pension costs (defined contribution schemes) (see note 19)	786	489
	8,376	5,482

Notes to the financial statements (continued)

at 31 December 2017

6. Staff costs (continued)

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

	2017	*2016*
	No.	*No.*
Manufacturing	112	115
Distribution	83	52
Administration	30	22
	224	189

7. Directors remuneration

No director received, or was due to receive, any emoluments in connection with their services as a director of the company during the year. To reflect the services provided to the company during the year, an appropriate apportionment of these costs has been assessed as £5,000 per director. The fair value of the services received has been assessed at £19,000; therefore Eaton Electrical Products Limited recognises a notional charge of £19,000 (2016: £19,000) for director services during the year.

No directors received shares in respect of qualifying services and no directors exercised share options.

8. Interest receivable and similar income

	2017	*2016*
	£000	*£000*
On loans and balances due from fellow group undertakings	53	80
	53	80

9. Taxation

(a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	2017	*2016*
	£000	*£000*
Current tax:		
UK corporation tax	2,154	-
Adjustment in respect of earlier years	-	(2,265)
Total current tax	2,154	(2,265)
Deferred tax:		
Origination and reversal of temporary differences	(22)	33
Adjustment in respect of prior year	185	-
Total change in the deferred tax	163	-
Tax charge/(credit) on profit on ordinary activities	2,317	(2,232)

Notes to the financial statements (continued)

at 31 December 2017

9. Taxation (continued)

(b) Factors affecting the total tax charge

The tax assessed on the profit on ordinary activities for the year is higher/lower than the standard rate of corporation tax in the UK of 19.25% (2016 – 20.0%). The differences are reconciled below:

	2017	*2016*
	£000	*£000*
Profit on ordinary activities before tax	11,023	5,194
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.25% (2016 – 20.0%)	2,122	1,039
Expenses not deductible for tax purposes (including goodwill amortisation)	3	2
Other timing differences	7	2
Group relief	-	(1,010)
Adjustment from previous period	185	(2,265)
Total tax expense	2,317	(2,232)

(c) Factors that may affect future tax charges

The UK corporation tax rate reduced from 20% to 19% effective from 1 April 2017. The Finance Act 2016, substantively enacted on 6 September 2016, includes legislation that will further reduce the main rate of corporation tax to 17%, effective from 1 April 2020.

(d) Deferred tax

	2017	*2016*
	£000	*£000*
Depreciation in excess of capital allowance	29	74
Other timing differences	66	8
Provision for deferred tax	95	82

At 1 January 2017	(82)
Deferred tax charge in profit and loss account	163
Transferred from other group undertakings	(176)
At 31 December 2017	(95)

The deferred tax balances as at 31 December 2017 have been restated at a rate of 19% as this is the rate at which deferred tax is expected to reverse.

Notes to the financial statements (continued)

at 31 December 2017

10. Tangible fixed assets

	Freehold Land and buildings £000	*Plant and machinery £000*	*Total £000*
Cost:			
At 1 January 2017	1,717	2,608	4,325
Transfers	4,506	692	5,198
Additions	46	675	721
Disposals	-	-	-
At 31 December 2017	6,269	3,975	10,244
Depreciation and impairment:			
At 1 January 2017	624	1,422	2,046
Transfers	1,627	238	1,865
Provided during the year	128	213	341
Disposals	-	-	-
At 31 December 2017	2,379	1,873	4,252
Carrying amount			
At 31 December 2017	3,890	2,102	5,992
At 31 December 2016	1,093	1,186	2,279

The value of freehold land included in land and buildings amounted to £1,329,000 (2016 - £329,000).

11. Intangible Assets

	£000
Goodwill	
Cost	
At 1 January 2017	-
Additions	801
At 31 December 2017	801
Amortisation	
At 1 January 2017	-
Provided during the year	47
At 31 December 2017	47
Carrying Amount	
At 31 December 2017	754
At 31 December 2016	-

Goodwill was acquired through the acquisition in September 2017 of the assets and liabilities of Cooper Bussmann (UK) Limited. Goodwill is being amortised evenly over the directors' estimate of its useful economic life of 10 years. Amortisation charge for the 3 months in 2017 is £47,000 (2016 - £0). The remaining amortisation period is 4 years

Notes to the financial statements (continued)

at 31 December 2017

12. Investments

	Investments in subsidiary companies £000
Cost	
At 1 January 2017	125,258
Additions	44,237
At 31 December 2017	169,495
Impairment	
At 1 January 2017	26,658
Provided during the year	142,837
At 31 December 2017	169,495
Carrying Amount	
At 31 December 2017	-
At 31 December 2016	98,600

Details of subsidiary undertaking:

	Country of incorporation	*Nature of business*	*Proportion of ordinary shares held*
Eaton Controls (UK) Limited	England and Wales	Design and manufacture of high tech enclosures for IT and telecoms industries	100%
Cooper Bussmann (UK) Limited	England and Wales	Dormant	100%
Cooper Security Limited	England and Wales	Dormant	100%
Martek Power Limited	England and Wales	Dormant	100%

In September 2017, as part of a legal entity simplification program in the UK the company entered into the following transactions:

- Purchase of the assets and liabilities of Cooper Bussmann (UK) Limited for £98,600,000 in exchange for a loan note.
- The excess of consideration paid over the net assets acquired has been added to investments in subsidiary undertakings.
- Subsequent to the above trade transfer, the intercompany loan notes were forgiven.

Following these steps, the company reviewed the carrying value of its investments and has made additional provisions against investments in group undertakings of £142,837,000.

Notes to the financial statements (continued)

at 31 December 2017

13. Stocks

	2017	*2016*
	£000	*£000*
Raw materials and consumables	1,339	1,254
Work in progress	1,903	1,214
Finished goods and goods for resale	8,640	3,181
	11,882	5,649

The difference between purchase price or production cost of stocks and their replacement cost is not material.

14. Debtors

	2017	*2016*
	£000	*£000*
Trade and other receivables	12,708	5,145
Prepayments and accrued income	125	770
Amounts owed by group undertakings	109,539	40,799
Deferred tax asset (see note 9)	95	82
Other debtors	325	-
	122,792	46,796

Amounts due from group undertakings includes £31,862,000 in relation to intercompany cash pool loans.

15. Creditors: amounts falling due within one year

	2017	*2016*
	£000	*£000*
Trade creditors	2,551	1,439
Amounts owed to group undertakings	33,273	14,769
Corporation tax	2,154	-
Other taxes	1,037	547
Accruals and deferred income	2,880	1,421
	41,895	18,176

Amounts owed to group undertakings are repayable on demand and are not interest bearing.

16. Allotted and Issued share capital

		2017		*2016*
Allotted, called up and fully paid	*No.*	*£'000*	*No.*	*£'000*
Ordinary shares of £1 each	40,000	40	40,000	40

Notes to the financial statements (continued)

at 31 December 2017

17. Reserves

	Capital contribution reserve	Profit and loss account	Total
	£000	£000	£000
At 1 January 2017	105,145	30,214	135,359
Profit for the year	-	8,706	8,706
Group reorganisation (see note 12):			
Profit on forgiveness of intercompany loans	-	98,600	98,600
Provision against investments in group undertakings	-	(142,837)	(142,837)
At 31 December 2017	105,145	(5,317)	99,868

18. Related party disclosures

During the year the Company entered into transactions, in the ordinary course of business, with other related parties.

The company has taken advantage of the exemption in Section 33.1A of FRS102, whereby disclosures need not be given of transactions entered into between two or more members of a group, provided that any subsidiary, which is a party to the transaction, is wholly owned by such a member.

19. Pensions and other post-retirement health care benefits

The pension charge for the year ended 31 December 2017 was £786,119 (2016: £489,040) . At 31 December 2017, there were no outstanding contributions (2016 – nil). The company employees participate in the Eaton Retirement and Savings Plan, a defined contribution personal pension scheme.

20. Operating lease commitments

Future minimum rentals payable under non-cancellable operating leases are as follows:

	2017	2016
	£000	£000
Land and buildings		
Not later than one year	-	1
After one year but not more than five years	533	830
	533	831
Other		
Not later than one year	57	33
After one year but not more than five years	269	252
	326	285

Notes to the financial statements (continued)

at 31 December 2017

21. Capital commitments

Amounts authorised and contracted for but not provided in the financial statements amounted to £34,000 for the company (2016 – £49,000).

22. Contingent liabilities

The company had no contingent liabilities as at the balance sheet date.

23. Ultimate parent undertaking and controlling party

The company's immediate parent undertaking is Eaton Holding (UK) II Limited, a company registered in England and Wales.

The company's ultimate parent undertaking and controlling party is Eaton Corporation PLC which is incorporated in Ireland. The only group of which the company is a member and for which group financial statements are prepared is that headed by Eaton Corporation PLC. Copies of the 2017 Annual Report of Eaton Corporation PLC can be obtained from the following address:

Eaton Center
1000 Eaton Boulevard
Cleveland
Ohio 44122
USA

24. Events after the reporting period

The directors are not aware of any events after the reporting period.