

Financial Statements

Eriez Magnetics Europe Limited

For the Year Ended 31 December 2017



Registered number: 01397255

Eriez Magnetics Europe Limited

Company Information

Directors

A J Lewis
J Jamieson
J L Curwen
G Meese
M A Cooper

Company secretary

J Jamieson

Registered number

01397255

Registered office

Bedwas House Industrial Estate
Bedwas
Caerphilly
Newport
Gwent
CF83 8YG

Independent auditor

Grant Thornton UK LLP
Chartered Accountants & Statutory Auditor
11/13 Penhill Road
Cardiff
South Glamorgan
CF11 9UP

Contents

	Page
Strategic report	1 - 2
Directors' report	3 - 4
Independent auditor's report	5 - 7
Statement of comprehensive income	8
Statement of financial position	9
Statement of changes in equity	10 - 11
Notes to the financial statements	12 - 33

Strategic Report

For the Year Ended 31 December 2017

Business Review

The directors are pleased to present the financial statements for the year ended 31 December 2017. Turnover remained stable for the year, as the company slowly recovers from the downturn of 2015. Gross margin has been maintained, despite pressures on raw material costs. The directors have seen a significant recovery in the mining and minerals markets, leading to a much improved backlog for 2018. In order to manage the anticipated increase in both turnover and manning levels, an extension to the original plant has been authorised, with anticipated completion in October 2018. This will provide facilities to manufacture products currently purchased overseas, in addition to providing much needed additional storage facilities. The company also intends to develop new products during 2018, requiring significant investment in both plant and personnel, which will help secure new markets in the future. A development programme utilising the services of local educational establishments is already underway to help the company achieve these goals.

Turnover has seen a drop in exports from 70% to 65% in 2017, although this drop was covered by increased UK sales. The directors anticipate export sales to rise in 2018, particularly when the true outcome of the UK leaving the EU is better understood.

2018 is expected to be one of the best years in the company's history, with improved facilities, a strong opening backlog and new products and markets being targeted. The directors are confident that the company will continue to grow in the years to come.

Financial Performance

The directors use the following key performance indicators (KPIs) to measure the company's performance:

	2017 £'000	2016 £'000	Change (%)
Revenue	16,495	16,482	0.01
Gross profit margin	24.8%	24.9%	(0.10)
EBITDA	1,620	1,989	(18.6)
Net Assets	11,003	9,844	11.8%

The results are set out on Page 8. As the KPIs reflect, there was little change in both Revenue and profit margin. EBITDA shows a disappointing reduction, mainly due to an increase in overheads, particularly distribution costs. Net assets have increased considerably. All classes of assets show increases, including WIP levels, which are high to support the higher opening backlog for 2018.

Strategic Report (continued)

For the Year Ended 31 December 2017

Principal risks and uncertainties

The Company's principal strategic risks have remained broadly unchanged over the years, and relate to issues which might prevent the Board from achieving its long term goals of creating sustainable revenue growth. The key risks which management face are as follows:

Raw material price fluctuation

A large proportion of the company's raw material purchases are subject to volatility in the commodities markets. Steel, copper and rare earth magnet material can all be affected by highly variable pricing. The Company enters in to long term fixed price contracts as appropriate to minimise the risk of increasing prices.

Fluctuation in currency exchange rates

More than 65% of the Company's turnover relates to export sales, the majority of which are performed in Euros. A smaller proportion of contracts are in US dollars. Risk is partly mitigated by purchasing materials and services in these two currencies.

Health and Safety risks

The Company manufactures separation equipment using exceedingly strong magnet material, which gives rise to many risks to both employees and customers. Robust internal procedures and communication with customers ensures these risks are minimised.

Financial and business control

Financial controls are essential to the control and management of the business. The Company has an experienced financial team, with clearly laid out policies and procedures, which are regularly reviewed by the Board to ensure they remain both effective and appropriate to the business.

This report was approved by the board on 4 June 2018 and signed on its behalf.

J L Curwen
Director

Jon Jumer

Directors' Report

For the Year Ended 31 December 2017

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

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies for the Company's financial statements and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The 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 to 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.

Results and dividends

The profit for the year, after taxation, amounted to £1,152 thousand (2016 - £1,362 thousand).

Directors

The directors who served during the year were:

A J Lewis
J Jamieson
J L Curwen
G Meese
M A Cooper

Directors' Report (continued)

For the Year Ended 31 December 2017

Disclosure of information to auditor

Each of the persons who are directors at the time when this Directors' report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Post balance sheet events

There have been no significant events affecting the Company since the year end.

Auditor

The auditor, Grant Thornton UK LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on 4 June 2018 and signed on its behalf.

J L Curwen
Director

Jon Curwen

Independent Auditor's Report to the Shareholders of Eriez Magnetics Europe Limited

Opinion

We have audited the financial statements of Eriez Magnetics Europe Limited for the year ended 31 December 2017, set out on pages 8 to 33. 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 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 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 United Kingdom, including the Financial Reporting Council'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.

Who we are reporting to

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.

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 Shareholders of Eriez Magnetics Europe Limited (continued)

Other information

The directors are responsible for the other information. The other information comprises the information included in the Directors' report, other than the financial statements and our Auditor's report 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 Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by the Companies Act 2006

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

Matters on which we are required to report by exception

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 Shareholders of Eriez Magnetics Europe Limited (continued)

Responsibilities of directors for the financial statements

As explained more fully in the Directors' responsibilities statement on page 3, 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.

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

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

Rhian Owen (Senior statutory auditor)

for and on behalf of

Grant Thornton UK LLP

Chartered Accountants
Statutory Auditor

11/13 Penhill Road
Cardiff
South Glamorgan
CF11 9UP

Date:

4 June 2018

Statement of Comprehensive Income

For the Year Ended 31 December 2017

	Note	2017 £000	2016 £000
Turnover	4	16,495	16,482
Cost of sales		(12,403)	(12,386)
Gross profit		4,092	4,096
Distribution costs		(1,590)	(1,328)
Administrative expenses		(1,076)	(1,061)
Other operating income	5	3	5
Operating profit	6	1,429	1,712
Interest receivable and similar income	10	1	2
Interest payable and similar charges	11	(368)	(444)
Other finance income		368	444
Profit before tax		1,430	1,714
Tax on profit	12	(278)	(352)
Profit for the financial year		1,152	1,362
Other comprehensive income for the year			
Remeasurement gains on pension asset		7	7
Other comprehensive income for the year		7	7
Total comprehensive income for the year		1,159	1,369

There were no recognised gains and losses for 2017 or 2016 other than those included in the statement of comprehensive income.

The notes on pages 12 to 33 form part of these financial statements.

Statement of Financial Position

As at 31 December 2017

	Note	2017 £000	2016 £000
Fixed assets			
Tangible assets	14	2,422	2,325
Investments	15	44	44
		<u>2,466</u>	<u>2,369</u>
Current assets			
Stocks	16	3,969	3,545
Debtors: amounts falling due within one year	17	4,332	3,222
Cash at bank and in hand	18	2,684	3,003
		<u>10,985</u>	<u>9,770</u>
Creditors: amounts falling due within one year	19	(2,311)	(2,165)
Net current assets		<u>8,674</u>	<u>7,605</u>
Total assets less current liabilities		<u>11,140</u>	<u>9,974</u>
Creditors: amounts falling due after more than one year	20	(35)	(42)
Provisions for liabilities			
Deferred tax	23	(102)	(88)
		<u>(102)</u>	<u>(88)</u>
Net assets		<u>11,003</u>	<u>9,844</u>
Capital and reserves			
Called up share capital	24	200	200
Profit and loss account	25	10,803	9,644
		<u>11,003</u>	<u>9,844</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 4/6/18

J L Curwen
Director

John Curwen

Statement of Changes in Equity

For the Year Ended 31 December 2017

	Called up share capital	Profit and loss account	Total equity
	£000	£000	£000
At 1 January 2017	200	9,644	9,844
Comprehensive income for the year			
Profit for the year	-	1,152	1,152
Remeasurement gain on pension asset	-	7	7
Other comprehensive income for the year	-	7	7
Total comprehensive income for the year	-	1,159	1,159
At 31 December 2017	200	10,803	11,003

Statement of Changes in Equity

For the Year Ended 31 December 2016

	Called up share capital	Profit and loss account	Total equity
	£000	£000	£000
At 1 January 2016	200	8,275	8,475
Comprehensive income for the year			
Profit for the year	-	1,362	1,362
Remeasurement gain on pension asset	-	7	7
Other comprehensive income for the year	-	7	7
Total comprehensive income for the year	-	1,369	1,369
At 31 December 2016	200	9,644	9,844

The notes on pages 12 to 33 form part of these financial statements.

Notes to the Financial Statements

For the Year Ended 31 December 2017

1. General information

Eriez Magnetics Europe Limited is incorporated in Wales, with its registered office at: Bedwas House Industrial Estate, Bedwas, Caerphilly, Newport, Gwent, CF83 8YG.

Eriez Magnetics Europe Limited's principal activity is the design and manufacture of equipment for use in material movement, separation, purification and metal detection.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies (see note 3).

The following principal accounting policies have been applied:

2.2 Going concern

The directors have considered the future trading position of the company, and based on actual trading results since the year-end, are confident that the going concern principle can be applied to the financial statements.

2.3 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

Sale of goods

Revenue from the sale of goods is recognised when all of the following conditions are satisfied:

- the Company has transferred the significant risks and rewards of ownership to the buyer;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the Company will receive the consideration due under the transaction; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Notes to the Financial Statements

For the Year Ended 31 December 2017

2. Accounting policies (continued)

2.4 Intangible assets

Goodwill

Goodwill represents the difference between amounts paid on the acquisition of a business combination and fair value of the identifiable assets and liabilities. Subsequent to initial recognition, Goodwill is measured at cost less accumulated amortisation and accumulated impairment losses. Goodwill is amortised on a straight line basis to the Income statement over its useful economic life of 3 years.

2.5 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Land is not depreciated. Depreciation on other assets is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

Depreciation is provided on the following basis:

Freehold property	- 25 years
Plant & machinery	- 3 to 10 years
Other fixed assets	- 10 years

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Statement of comprehensive income.

2.6 Stocks

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a first in, first out basis. Work in progress and finished goods include labour and attributable overheads.

At each reporting date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in profit or loss.

2.7 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

Notes to the Financial Statements

For the Year Ended 31 December 2017

2. Accounting policies (continued)

2.8 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

2.9 Financial instruments

The Company only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, loans from banks and other third parties, loans to related parties and investments in non-puttable ordinary shares.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade debtors and creditors, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration expected to be paid or received. However, if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or financed at a rate of interest that is not a market rate or in case of an out-right short-term loan not at market rate, the financial asset or liability is measured, initially, at the present value of the future cash flow discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Statement of comprehensive income.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate of the recoverable amount, which is an approximation of the amount that the Company would receive for the asset if it were to be sold at the reporting date.

Financial assets and liabilities are offset and the net amount reported in the Statement of financial position when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

2.10 Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

Notes to the Financial Statements

For the Year Ended 31 December 2017

2. Accounting policies (continued)

2.11 Government grants

Grants are accounted under the accruals model as permitted by FRS 102. Grants relating to expenditure on tangible fixed assets are credited to the Statement of comprehensive income at the same rate as the depreciation on the assets to which the grant relates. The deferred element of grants is included in creditors as deferred income.

Grants of a revenue nature are recognised in the Statement of comprehensive income in the same period as the related expenditure.

2.12 Pensions

Defined contribution pension plan

The Company operates a defined contribution 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 in the Statement of comprehensive income when they fall due. Amounts not paid are shown in accruals as a liability in the Statement of financial position. The assets of the plan are held separately from the Company in independently administered funds.

Defined benefit pension plan

The company operates a defined benefit plan for certain employees. A defined benefit plan defined the pension benefit that the employee will receive on retirement, usually dependent upon several factors including but not limited to age, length of service and remuneration. A defined benefit plan is a pension plan that is not a defined contribution plan.

The surplus recognised by an entity is considered to be limited to the future service cost which the company would have to fund, by way of contributions, in absence of this surplus. However, where the company has already committed to make future service contributions, these must be deducted from the recoverable surplus.

As such, the Company's recoverable surplus is calculated to be the present value of all future service costs less the present value of the agreed company future service contributions.

The defined benefit obligation is calculated using the projected unit credit method. The company engages independent actuaries to calculate the obligation annually. The present value is determined by discounting the estimated future payments using market yields on high quality corporate bonds that are denominated in sterling and that have terms approximating to the estimated period of the future payments ('discount rate').

The fair value of plan assets is measured in accordance with the FRS 102 fair value hierarchy and in accordance with the company's policy for similarly held assets. This includes the use of appropriate valuation techniques.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income. These amounts together with the return on place assets, less amounts included in net interest, are disclosed as 'Remeasurement of net defined benefit liability'.

Notes to the Financial Statements

For the Year Ended 31 December 2017

2. Accounting policies (continued)

2.12 Pensions (continued)

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

- a) the increase in net pension benefit liability arising from employee service during the period; and
- b) the cost of plan introductions, benefit changes, curtailments and settlements.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is recognised in profit or loss as a 'finance expense'.

2.13 Interest income

Interest income is recognised in the Statement of comprehensive income using the effective interest method.

2.14 Provisions for liabilities

Provisions are made where an event has taken place that gives the Company a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the Statement of comprehensive income in the year that the Company becomes aware of the obligation, and are measured at the best estimate at the Statement of financial position date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Statement of financial position.

Notes to the Financial Statements

For the Year Ended 31 December 2017

2. Accounting policies (continued)

2.15 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Statement of comprehensive income, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the Company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Statement of financial position date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

Notes to the Financial Statements

For the Year Ended 31 December 2017

2. Accounting policies (continued)

2.16 Cashflows

As set out in note 29, the company's parent undertaking, Eriez Manufacturing Company, prepares consolidated accounts which include the cashflows of the Company. Consequently, the company is exempt under the terms of Financial Reporting Standard 102 from publishing a cashflow statement.

3. Judgments in applying accounting policies and key sources of estimation uncertainty

Preparation of the financial statements requires management to make significant judgements and estimates. The items in the financial statements where these judgments and estimates have been made include:

1. Recoverability of trade debtors
2. Depreciation and amortisation charges
3. Overheads costs and staff costs included within the value of stock

4. Turnover

Analysis of turnover by country of destination:

	2017 £000	2016 £000
United Kingdom	5,754	4,900
Rest of Europe	8,261	8,143
Rest of the world	2,480	3,439
	<u>16,495</u>	<u>16,482</u>

5. Other operating income

	2017 £000	2016 £000
Government grants receivable	3	5
	<u>3</u>	<u>5</u>

Notes to the Financial Statements

For the Year Ended 31 December 2017

6. Operating profit

The operating profit is stated after charging:

	2017 £000	2016 £000
Depreciation of tangible fixed assets	191	206
Amortisation of intangible assets, including goodwill	-	71
Operating lease rentals	40	52
Defined contribution pension cost	337	319
	<u>337</u>	<u>319</u>

7. Auditor's remuneration

	2017 £000	2016 £000
Fees payable to the Company's auditor and its associates for the audit of the Company's annual accounts	18	25
	<u>18</u>	<u>25</u>

8. Employees

Staff costs, including directors' remuneration, were as follows:

	2017 £000	2016 £000
Wages and salaries	4,580	4,148
Social security costs	484	440
Cost of defined contribution scheme	337	319
	<u>5,401</u>	<u>4,907</u>

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

	2017 No.	2016 No.
Production and distribution	67	64
Administration	52	52
	<u>119</u>	<u>116</u>

Notes to the Financial Statements

For the Year Ended 31 December 2017

9. Directors' remuneration

	2017 £000	2016 £000
Directors' emoluments	628	586
Company contributions to defined contribution pension schemes	131	109
	<u>759</u>	<u>695</u>

During the year retirement benefits were accruing to 4 directors (2016 - 4) in respect of defined contribution pension schemes.

The highest paid director received remuneration of £165,000 (2016 - £160,000).

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £43,000 (2016 - £38,000).

10. Interest receivable

	2017 £000	2016 £000
Other interest receivable	1	2
	<u>1</u>	<u>2</u>

11. Other finance costs

	2017 £000	2016 £000
Net interest on net defined benefit liability	368	444
	<u>368</u>	<u>444</u>

Notes to the Financial Statements

For the Year Ended 31 December 2017

12. Taxation

	2017 £000	2016 £000
Corporation tax		
Current tax on profits for the year	264	345
	<u>264</u>	<u>345</u>
Total current tax	<u>264</u>	<u>345</u>
Deferred tax		
Origination and reversal of timing differences	26	6
Prior year charge	-	1
Effect of changes in tax rates	(12)	-
	<u>14</u>	<u>7</u>
Total deferred tax	<u>14</u>	<u>7</u>
Taxation on profit on ordinary activities	<u>278</u>	<u>352</u>

Factors affecting tax charge for the year

The tax assessed for the year is higher than (2016 - higher than) the standard rate of corporation tax in the UK of 19.25% (2016 - 20%). The differences are explained below:

	2017 £000	2016 £000
Profit on ordinary activities before tax	<u>1,430</u>	<u>1,714</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.25% (2016 - 20%)	275	343
Effects of:		
Expenses not deductible for tax purposes	14	14
Effects of group relief/other reliefs	-	(6)
Adjustments to tax charge in respect of prior periods	(12)	1
Items charged elsewhere (equity/OCI)	1	-
	<u>278</u>	<u>352</u>
Total tax charge for the year	<u>278</u>	<u>352</u>

Factors that may affect future tax charges

There were no factors that may affect future tax charges.

Notes to the Financial Statements

For the Year Ended 31 December 2017

13. Intangible assets

	Goodwill £000
Cost	
At 1 January 2017	335
	<hr/>
At 31 December 2017	335
	<hr/>
Amortisation	
At 1 January 2017	335
	<hr/>
At 31 December 2017	335
	<hr/>
Net book value	
At 31 December 2017	-
	<hr/> <hr/>
At 31 December 2016	-
	<hr/> <hr/>

Notes to the Financial Statements

For the Year Ended 31 December 2017

14. Tangible fixed assets

	Freehold property £000	Plant & machinery £000	Leased assets £000	Total £000
Cost or valuation				
At 1 January 2017	2,707	3,320	49	6,076
Additions	84	207	-	291
Disposals	-	(396)	-	(396)
Transfers between classes	(12)	12	-	-
At 31 December 2017	<u>2,779</u>	<u>3,143</u>	<u>49</u>	<u>5,971</u>
Depreciation				
At 1 January 2017	955	2,764	32	3,751
Charge for the year on owned assets	66	122	-	188
Charge for the year on financed assets	-	-	3	3
Disposals	-	(393)	-	(393)
At 31 December 2017	<u>1,021</u>	<u>2,493</u>	<u>35</u>	<u>3,549</u>
Net book value				
At 31 December 2017	<u>1,758</u>	<u>650</u>	<u>14</u>	<u>2,422</u>
At 31 December 2016	<u>1,752</u>	<u>556</u>	<u>17</u>	<u>2,325</u>

The net book value of assets held under finance leases or hire purchase contracts, included above, are as follows:

	2017 £000	2016 £000
Plant and machinery	<u>14</u>	<u>17</u>
	<u>14</u>	<u>17</u>

Notes to the Financial Statements

For the Year Ended 31 December 2017

15. Fixed asset investments

	Investments in subsidiary companies £000
Cost or valuation	
At 1 January 2017	44
At 31 December 2017	44
Net book value	
At 31 December 2017	44
At 31 December 2016	44

Subsidiary undertakings

The following were subsidiary undertakings of the Company:

Name	Class of shares	Holding	Principal activity
Pulse Technology Limited	Ordinary	100 %	Dormant
Prisecter Services Limited	Ordinary	100 %	Dormant
Prisecter India AVT Limited	Ordinary	51 %	Dormant
Boxmag-Rapid Limited	Ordinary	100 %	Dormant
Centriforce Limited	Ordinary	100 %	Dormant
Hydroflow Europe Limited	Ordinary	100 %	Dormant

The aggregate of the share capital and reserves as at 31 December 2017 and of the profit or loss for the year ended on that date for the subsidiary undertakings were as follows:

	Aggregate of share capital and reserves £000
Pulse Technology Limited	44

Notes to the Financial Statements

For the Year Ended 31 December 2017

16. Stocks

	2017 £000	2016 £000
Raw materials and consumables	1,470	1,587
Work in progress (goods to be sold)	1,496	954
Finished goods and goods for resale	1,003	1,004
	<u>3,969</u>	<u>3,545</u>

17. Debtors

	2017 £000	2016 £000
Trade debtors	3,827	2,787
Amounts owed by group undertakings	199	251
Prepayments and accrued income	306	184
	<u>4,332</u>	<u>3,222</u>

18. Cash and cash equivalents

	2017 £000	2016 £000
Cash at bank and in hand	2,684	3,003
	<u>2,684</u>	<u>3,003</u>

Notes to the Financial Statements

For the Year Ended 31 December 2017

19. Creditors: Amounts falling due within one year

	2017 £000	2016 £000
Payments received on account	651	417
Trade creditors	649	398
Amounts owed to group undertakings	156	289
Corporation tax	114	173
Other taxation and social security	227	205
Obligations under finance lease and hire purchase contracts	4	4
Other creditors	69	244
Accruals and deferred income	441	435
	<u>2,311</u>	<u>2,165</u>

The company's bankers hold a mortgage charge over the freehold property of the company, a fixed charge over the book debts and a floating charge over all other assets in respect of various facilities and guarantees that are made available to the company.

20. Creditors: Amounts falling due after more than one year

	2017 £000	2016 £000
Net obligations under finance leases and hire purchase contracts	10	14
Accruals and deferred income	25	28
	<u>35</u>	<u>42</u>

21. Hire purchase and finance leases

Minimum lease payments under hire purchase fall due as follows:

	2017 £000	2016 £000
Within one year	4	6
Between 1-2 years	5	6
Between 2-5 years	5	10
	<u>14</u>	<u>22</u>

Notes to the Financial Statements

For the Year Ended 31 December 2017

22. Financial instruments

	2017 £000	2016 £000
Financial assets		
Financial assets measured at amortised cost	6,710	6,041
	<u>6,710</u>	<u>6,041</u>
Financial liabilities		
Financial liabilities measured at amortised cost	(1,354)	(1,412)
	<u>(1,354)</u>	<u>(1,412)</u>

Financial assets measured at amortised cost comprise cash, trade debtors and amounts owed from group.

Financial liabilities measured at amortised cost comprise trade creditors, amounts owed to group, other creditors, accruals and net obligations under finance leases and hire purchase contracts.

23. Deferred taxation

	2017 £000	2016 £000
At beginning of year	(88)	(81)
Credited to the profit or loss	(14)	(7)
At end of year	<u>(102)</u>	<u>(88)</u>

The provision for deferred taxation is made up as follows:

	2017 £000	2016 £000
Accelerated capital allowances	(102)	(88)
	<u>(102)</u>	<u>(88)</u>

Notes to the Financial Statements

For the Year Ended 31 December 2017

24. Share capital

	2017 £000	2016 £000
Shares classified as equity		
Allotted, called up and fully paid		
200,000 Ordinary Shares shares of £1 each	200	200

25. Reserves

Profit & loss account

Includes all current and prior period retained profits and losses.

Notes to the Financial Statements

For the Year Ended 31 December 2017

26. Pension commitments

The Company operates a Defined benefit and a Defined contribution pension scheme.

Stakeholder scheme

The company operates a defined contribution stakeholder scheme. Pension costs to the company for this scheme amount to £286,000 (2016: £276,000).

Discretionary scheme

The company also operates a defined contribution discretionary scheme. Pension costs to the company for this scheme amount to £51,000 (2016: £43,000).

Defined benefit scheme

The company operates a defined benefit pension scheme with assets held in a separately administered fund. The scheme provides retirement benefits on the basis of members' final salary. On 1 January 2004, the defined benefit scheme was closed to new entrants. At the same time, the company established a defined contribution scheme to provide benefits to new employees.

During the period the Company participated in the Eriez Magnetics UK Limited 1987 Pension Scheme which is a defined benefit scheme. Contributions were made to the Scheme in accordance with the Schedule of Contributions and totalled £Nil (2016: £Nil) including special premiums of £Nil (2016: £Nil). The most recent formal actuarial valuation of the Scheme was carried out at 31 December 2008 and was updated to 31 December 2017.

The Scheme was closed to further accruals and contribution on 30 November 2011. A special contribution of £138,000 was made to reduce the actuarial deficit to £Nil.

An actuarial valuation of the Eriez Magnetics UK Limited 1987 Pension Scheme using the projected unit basis was carried out at 31 December 2017. The major assumptions used by the actuary have been detailed below.

	2017 £000	2016 £000
Reconciliation of present value of plan liabilities		
At the beginning of the year	14,842	12,322
Current service cost	7	7
Interest cost	368	444
Benefits paid	(1,546)	(495)
Actuarial losses and (gains) on Scheme liabilities	(259)	2,564
At the end of the year	13,412	14,842

Notes to the Financial Statements

For the Year Ended 31 December 2017

26. Pension commitments (continued)

	2017 £000	2016 £000
Reconciliation of present value of plan assets		
At the beginning of the year	14,955	14,225
Interest income on plan assets	368	444
Benefits and expenses paid	(1,546)	(495)
Remeasurement gain	468	781
At the end of the year	14,245	14,955

Composition of plan assets:

	2017 %	2016 %
Equities	36	35
Gilts	7	4
Bonds	13	13
Property	14	13
Annuities	29	31
Cash and alternative assets	1	4
Total plan assets	100	100

	2017 £000	2016 £000
Total assets	14,245	14,955
Actuarial liabilities	(13,412)	(14,842)
Surplus not recognised	(833)	(113)
Net pension scheme liability	-	-

Notes to the Financial Statements

For the Year Ended 31 December 2017

26. Pension commitments (continued)

The amounts recognised in profit or loss are as follows:

	2017 £000	2016 £000
Current service cost	(7)	(7)
Interest on obligation	(368)	(444)
Interest income on plan assets included in "Net Interest on Net DB Liability"	368	444
Total	(7)	(7)
Actual return on scheme assets	836	1,225
	(836)	(1,225)

The cumulative amount of actuarial gains and losses recognised in the Statement of comprehensive income was £21,000 (2016 - £14,000).

	2017 £000	2016 £000
Analysis of actuarial loss recognised in Other Comprehensive Income		
Actual return less interest income included in net interest income	468	781
Experience gains and losses arising on the scheme liabilities	259	(2,564)
Decrease/(increase) in unrecoverable surplus	(720)	1,790
	7	7

Notes to the Financial Statements

For the Year Ended 31 December 2017

26. Pension commitments (continued)

Principal actuarial assumptions at the Statement of financial position date (expressed as weighted averages):

	2017	2016
	%	%
Discount rate	2.44	2.62
Rate of RPI inflation	3.24	3.29
Future pension increases (RPI max 5.0%)	3.17	3.21
Deferred pension increases (CPI max 5.0%)	2.34	2.39

Mortality

2017	2016
90% of SAPS1 year of birth CMI2015 long term 1.00% improvement	90% of SAPS1 year of birth CMI2015 long term 1.00% improvement

	2017	2016
	£000	£000
Defined benefit obligation	(13,412)	(14,842)
Scheme assets	14,245	14,955
Surplus	833	113

	2017	2016
	£000	£000
Experience adjustments on scheme assets	(259)	2,564
Experience adjustments on scheme liabilities	(468)	(781)

Notes to the Financial Statements

For the Year Ended 31 December 2017

27. Commitments under operating leases

At 31 December 2017 the Company had future minimum lease payments under non-cancellable operating leases as follows:

	2017 £000	2016 £000
Not later than 1 year	27	35
Later than 1 year and not later than 5 years	33	8
	<u>60</u>	<u>43</u>

28. Related party transactions

In accordance with the exemptions afforded under FRS 102 section 33, there is no requirement to disclose transactions with other wholly owned entities of Eriez Manufacturing Group.

Key management remuneration amounted to £39 thousand (2016: £Nil).

29. Controlling party

The company's immediate parent undertaking is Eriez Manufacturing Company which is incorporated in the United States of America. The consolidated accounts of the group can be obtained from Eriez Manufacturing Company, 2200 Asbury Road, Erie Pennsylvania 16505, USA. Ultimate control rests with Mr Richard Merwin.