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TUV Suddeutschland (UK) Limited

Report and Financial Statements

31 December 2004

ERNST & YOUNG



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TUV Suddeutschland (UK) Limited

Registered No: 3224488

Directors

Mr H Mund
Mr W Paton
Mr W Hock
Mr P M Crystal

Secretary

W Hock

Auditors

Ernst & Young LLP
Wessex House
19 Threefield Lane
Southampton
SO14 3QB

Bankers

National Westminster Bank plc
52 West Street
Fareham
Hampshire

Solicitors

Memery Crystal
31 Southampton Row
London
WC1B 5HT

Registered office

Octagon House
Concorde Way
Segensworth North
Fareham
Hampshire
PO15 5RL

Directors' report

The directors present their report and financial statements for the year ended 31 December 2004.

Results and dividends

The profit for the year amounted to £385,000. The directors do not recommend the payment of any dividends.

Principal activities and review of the business

The principal activity of the company during the year was to act as the holding company for UK activities, which are primarily to provide an extensive range of services including contract research, technical evaluation, product and management system certification, testing and consultancy. These core competencies are provided in the areas of electrical, mechanical and process engineering, telecommunications, information technology, environmental performance, electromagnetic compatibility and product safety assessment.

The company also managed the Group property assets and in this capacity received rental income from TUV Product Service Limited. However, during the year, TUV Product Service Limited purchased new premises at Segensworth North, Fareham and is currently in the process of moving its activities to this site. As a result, agreement for the sale of land at the old site was agreed in principle with an expected completion date of June 2005. The new site has also become the registered office address from December 2004.

During the year, further repayments of a loan from the parent company were made and dividends received from subsidiaries, TUV Product Service Limited of £250k and TUV NEL Limited of £100k.

Market value of land

As a result of the sale agreement referred to above, the opinion of the Directors has been confirmed, that the market value of land held by the company exceeds its book value by approximately 300%.

Accounting for pensions

The Company is the Principal Employer of the TPS Benefit Scheme which is the main vehicle for pension provision for UK group employees. Contributions and provisions are accounted for at the Subsidiary level but compliance with FRS 17 disclosure requirements is contained within these accounts. This is the third year of full disclosure.

During the year, the Trustee board competed the contract for its Actuarial and Administration service requirements and as a result, the provider has changed from Entegria to Mellon with effect from October 2004. The three year Valuation was due at 31 December 2004 and the completion of this task is expected later in the year. Consequently, the last published valuation (2001) has been used as the basis for figures in these accounts.

Against this background, the Directors remain content that the FRS 17 deficit shows a realistic outcome in the current climate and represents a useful, interim tool for valuation of pension liabilities but represents close to a "worst case" scenario. The Directors recognise that pensions are a long term investment and look forward to receiving a presentation / recommendation from the Trustee, following the latest Valuation. As a result and in view of the fact that the current FRS 17 deficit falls within the "corridor" for no immediate action under the International Accounting Standard guideline, the Directors concluded that the provision set up last year (£300k) was not required and it was released. Further information can be found at Note 16 to these accounts.

Directors' report

Directors

The directors who served the company during the year were as follows:

Mr H Mund
Mr W Paton
Mr W Hock
Mr P M Crystal

There are no directors' interests requiring disclosure under the Companies Act 1985.

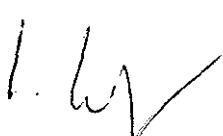
Directors' liabilities

The company has indemnified one or more directors of TUV Suddeutschland (UK) Limited against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 1985. Such qualifying third party indemnity provision was in force during the year.

Auditors

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

By order of the board



W Hock
Secretary

12 April 2005

Statement of directors' responsibilities in respect of the financial statements

Company law requires the directors to prepare financial statements for each financial year which 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; 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 proper accounting records which 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 1985. 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 auditors' report

to the members of TUV Suddeutschland (UK) Limited

We have audited the company's financial statements for the year ended 31 December 2004 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet and the related notes 1 to 18. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 auditors' 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.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Independent auditors' report

to the members of TUV Sddeutschland (UK) Limited (continued)

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 December 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

**Ernst & Young LLP
Registered Auditor
Southampton**

12 April 2005

Profit and loss account
for the year ended 31 December 2004

	Notes	2004 £000	2003 £000
Turnover		–	–
Administrative expenses		6	364
Other operating income		(135)	(135)
Operating profit/(loss)	2	129	(229)
Income from investments		350	350
Bank interest receivable	5	–	10
Interest payable and similar charges	6	(94)	(117)
		256	243
Profit on ordinary activities before taxation		385	14
Tax on profit on ordinary activities	7	–	–
Profit retained for the financial year		385	14

Statement of total recognised gains and losses

There are no recognised gains or losses other than the profit of £385,000 attributable to the shareholders for the year ended 31 December 2004 (2003 - profit of £14,000).

Balance sheet

at 31 December 2004

	Notes	2004 £000	2003 £000
Fixed assets			
Tangible assets	8	1,180	1,180
Investments	9	11,500	11,500
		<u>12,680</u>	<u>12,680</u>
Current assets			
Debtors	10	1,320	1,320
Creditors: amounts falling due within one year	11	2,451	1,736
Net current liabilities		<u>(1,131)</u>	<u>(416)</u>
Total assets less current liabilities		11,549	12,264
Creditors: amounts falling due after more than one year	12	–	800
Provisions for liabilities and charges	13	–	300
		<u>11,549</u>	<u>11,164</u>
Capital and reserves			
Called up share capital	15	1,156	1,156
Share premium account	16	2,244	2,244
Capital contribution	16	11,347	11,347
Profit and loss account	16	(3,198)	(3,583)
Equity shareholders' funds	16	<u>11,549</u>	<u>11,164</u>



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Mr W Hock
Director

12 April 2005

Notes to the financial statements

at 31 December 2004

1. Accounting policies

Basis of preparation

The financial statements are prepared under the historical cost convention.

The financial statements have been prepared on the going concern basis because the Company's parent undertaking has confirmed that it will provide such financial support as is necessary to enable the Company to trade in the foreseeable future.

Cash flow statement

The directors have taken advantage of the exemption in Financial Reporting Standard No 1 (revised) from including a cash flow statement in the financial statements on the grounds that the company is wholly owned and its parent publishes consolidated financial statements.

Tangible fixed assets

Freehold land is initially recorded at cost and is not depreciated.

Investments

Investments in group undertakings are stated at cost or valuation less any provision for diminution in value.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exception:

- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

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.

Foreign currencies

Transactions in foreign currencies are recorded at the 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 profit and loss account.

Notes to the financial statements

at 31 December 2004

1. Accounting policies (continued)

Pension costs

The company operates a defined benefit pension scheme on behalf of the TUV UK group of companies, which requires contributions to be made to separately administered funds. Contributions are charged in the profit and loss account so as to spread the cost of pensions over the employees' working lives within the company. The regular cost is attributed to individual years using the projected unit method. Variations in pension cost, which are identified as a result of actuarial valuations, are amortised over the average expected remaining working lives of employees in proportion to their expected payroll costs. Differences between the amounts funded and the amounts charged in the profit and loss account are treated as either provisions or prepayments in the balance sheet.

All the pension costs are recharged to the three operating subsidiaries who employ the schemes members.

Group accounts

The company is exempt by virtue of s228 of the Companies Act 1985 from the requirements to prepare group financial statements. These financial statements present information about the company as an individual undertaking and not about its group. Advantage has been taken of the exemption available under Financial Reporting Standard 8 not to disclose details of transactions with other TUV group undertakings as the consolidated accounts of TUV Sddeutschland Holding AG in which the company is included are publicly available.

2. Operating profit/(loss)

This is stated after charging/(crediting):

	2004 £000	2003 £000
Auditors' remuneration - audit services	3	3
- non-audit services	-	-
Provision for pension costs (note 13)	(300)	300
Management charge	250	-
Rental income	(135)	(135)

3. Staff costs

No salaries or wages have been paid to employees during the year.

4. Directors' emoluments

	2004 £000	2003 £000
Emoluments	16	20

5. Interest receivable

	2004 £000	2003 £000
Bank interest receivable	-	10

Notes to the financial statements

at 31 December 2004

6. Interest payable and similar charges

	2004 £000	2003 £000
Interest payable to group undertakings	<u>94</u>	<u>117</u>

7. Taxation on ordinary activities

Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 30% (2003 - 30%). The differences are reconciled below:

	2004 £000	2003 £000
Profit on ordinary activities before taxation	<u>385</u>	<u>14</u>
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK	115	4
Trading losses carried forward	5	11
Income not taxable	(30)	(105)
Other timing differences	(90)	90
Total current tax	<u>-</u>	<u>-</u>

Deferred tax

The deferred taxation asset not recognised in the financial statements is as follows:

	2004 £000	2003 £000
Tax losses available	16	11
Other timing differences	-	90
	<u>16</u>	<u>101</u>

8. Tangible fixed assets

	<i>Freehold Land</i> £000
Cost:	
At 1 January 2004 and 31 December 2004	<u>1,180</u>
Depreciation	<u>-</u>
Net book value:	
At 31 December 2004	<u>1,180</u>
At 1 January 2004	<u>1,180</u>

Notes to the financial statements

at 31 December 2004

9. Investments

	Shares in group companies £000
Cost:	
At 1 January 2004 and 31 December 2004	19,452
Amounts provided:	
At 1 January 2004 and 31 December 2004	7,952
Net book value:	
At 1 January 2004 & 31 December 2004	11,500

Details of the investments in which the company holds 20% or more of the nominal value of any class of share capital as follows:

Name of company	Holding	Proportion held	Nature of business
TUV Product Service Limited	Ordinary shares	100%	Certification services
TUV NEL Limited	Ordinary shares	100%	Certification services

In the opinion of the Directors, the subsidiary companies are both valued at £5,750k. These valuations are based upon their future earnings potential.

In addition to the above the company indirectly owns 100% of the ordinary shares of British Approvals Board for Telecommunications, which also provides certification services.

10. Debtors

	2004 £000	2003 £000
Amounts owed by group undertakings	1,300	1,300
Other debtors	20	20
	<u>1,320</u>	<u>1,320</u>

11. Creditors: amounts falling due within one year

	2004 £000	2003 £000
Bank overdraft	1,477	213
Amounts owed to group undertakings	862	1,393
Corporation tax	100	100
Accruals and deferred income	12	30
	<u>2,451</u>	<u>1,736</u>

12. Creditors: amounts falling due after more than one year

	2004 £000	2003 £000
Amounts owed to group undertakings	—	800

The amounts owed to group undertakings in notes 11 and 12 include an amount payable to the parent company of £800k (2003:£1.8m) which is an interest-bearing unsecured loan, repayable over three years and bearing interest at 4.9% per annum.

Notes to the financial statements

at 31 December 2004

13. Provisions for liabilities and charges

	<i>Provision for pensions £000</i>
At 1 January 2004	300
Profit and Loss Account movement arising during the year	(300)
At 31 December 2004	-

The provision that was set up in the previous financial year to allow for expected future pension costs has been released in the year

14. Related party transactions

During the year, TUV Sddeutschland (UK) Limited made purchases of services amounting to £10,255 from Memery Crystal, a company of which P Crystal is a partner (2003: £nil). There were no amounts due to Memery Crystal at the year end (2003: £nil).

15. Share capital

	<i>Authorised</i>	
	<i>2004</i>	<i>2003</i>
	<i>£000</i>	<i>£000</i>
Ordinary shares of £1 each	1,200	1,200

<i>Allotted, called up and fully paid</i>				
	<i>No.</i>	<i>2004</i>	<i>No.</i>	<i>2003</i>
		<i>£000</i>		<i>£000</i>
Ordinary shares of £1 each	1,156,000	1,156	1,156,000	1,156

16. Reconciliation of shareholders' funds and movement on reserves

	<i>Share capital</i>	<i>Share premium account</i>	<i>Capital contribution</i>	<i>Profit and loss account</i>	<i>Total shareholders' funds</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
At 1 January 2003	1,156	2,244	11,347	(3,597)	11,150
Profit for the year	-	-	-	14	14
At 31 December 2003	1,156	2,244	11,347	(3,583)	11,164
Profit for the year	-	-	-	385	385
At 31 December 2004	1,156	2,244	11,347	(3,198)	11,549

Notes to the financial statements

at 31 December 2004

17. Pension commitments

(a) Pensions

SSAP 24 disclosures

The principal scheme at 31 December 2004 is the TPS Benefit Scheme, a defined benefit scheme that commenced on 1 January 1999.

Following the company reorganisation in 2002, the Trustee of the scheme decided that the triennial revaluation should be brought forward by one year and an exercise was carried out with a valuation date of 31 December 2001. The main assumptions used in the valuation were as follows:

Price inflation (% per annum)	2.5
Rate of pay increases (% per annum)	4.0
Rate of pensions increase (% per annum)	2.5
Rate of increase in preserved pensions on pensions subject to statutory revaluation (% per annum)	2.5
Post retirement discount rate (% per annum)	6.5
Pre retirement discount rate (% per annum)	6.5

The assets were taken at market value at the valuation date and liabilities were valued on a projected unit basis.

At the date of the valuation, the market value of assets in the scheme was £14.9m and the actuarial value of those assets represented 112% of the benefits that had accrued to the pensioners, deferred pensioners and members, after allowing for expected increases in earnings.

In addition a subsidiary company, British Approval Board for Telecommunications, has a further scheme which covers a small number of employees with deferred benefits, which closed on 31 March 2001, and at the date of the latest actuarial valuation was fully funded.

FRS17 disclosures

The valuation used for FRS 17 disclosures has been based on the most recent actuarial valuation as at 31 December 2001 and updated by the scheme actuary, Mellon to take account of the requirements of FRS 17 in order to assess the liabilities of the scheme at 31 December 2004, 31 December 2003 and 31 December 2002. Scheme assets are stated at their market value at the respective balance sheet dates.

	2004 %	2003 %	2002 %
Main assumptions:			
Rate of increase in salaries	3.5	3.5	3.3
Rate of increase in pensions in payment	2.5	2.8	2.3
Discount rate	5.8	6.0	5.8
Inflation assumption	2.5	2.8	2.3

Notes to the financial statements

at 31 December 2004

17. Pension commitments (continued)

The assets and liabilities of the scheme and the expected rate of return at 31 December are:

		2004		2003		2002
	Long-term rate of return expected %	Value £000	Long-term rate of return expected %	Value £000	Long-term rate of return expected %	Value £000
Equities	6.8	13,162	6.8	12,319	6.8	10,442
Bonds	4.8	3,189	4.6	1,820	4.6	1,129
Others	4.0	20	4.0	272	4.0	1,220
Total market value of assets		16,371		14,411		12,791
Present value of scheme liabilities		(18,640)		(16,528)		
Pension liability before deferred tax		(2,269)		(2,117)		
Related deferred tax asset		681		635		
Net pension liability		(1,588)		(1,482)		

An analysis of the defined benefit cost for the year ended 31 December is as follows:

	2004 £000	2003 £000
Current service cost	(1,137)	(972)
Settlement on sale of operating division in 2001	—	(218)
Total operating charge	(1,137)	(1,190)
Other finance costs: Expected return on pension scheme assets	954	790
Other finance costs: Interest on pension scheme liabilities	(1,063)	(884)
Total other finance income	(109)	(94)
Actual return less expected return on pension scheme assets	317	1,306
Experience losses arising on scheme liabilities	229	353
Changes in assumptions underlying the present value of scheme liabilities	(252)	(556)
Actuarial gains recognised in the statement of total recognised gains and losses	294	1,103

Notes to the financial statements

at 31 December 2004

17. Pension commitments (continued)

Analysis of movements in deficit during the year

	2004 £000	2003 £000
At 1 January	(2,117)	(2,836)
Total operating charge	(1,137)	(1,190)
Total other finance income	(109)	(94)
Actuarial gains recognised in the statement of total recognised gains and losses	294	1,103
Contributions	800	900
At 31 December	<u>(2,269)</u>	<u>(2,117)</u>

History of experience gains and losses:

	2004	2003	2002
Difference between expected return and actual return on pension scheme assets			
- amount (£000)	317	1,306	(3,996)
- % of scheme assets	1.9	9.1	(31.2)
Experience gains/(losses) arising on scheme liabilities			
- amount (£000)	229	353	(87)
- % of the present value of scheme liabilities	1.2	2.1	(0.6)
Total actuarial gains/(losses) recognised in the statement of total recognised gains and losses			
- amount (£000)	294	1,103	(4,594)
- % of the present value of scheme liabilities	1.6	6.7	(29.4)

(b) Reconciliations of net assets and reserves under FRS 17

Net assets

	2004 £000	2003 £000	2002 £000
Net assets as stated in balance sheet	11,549	11,164	11,150
Pension provision	-	300	-
FRS 17 defined benefit liability	<u>(1,588)</u>	<u>(1,482)</u>	<u>(1,985)</u>
Net liabilities including defined benefit liabilities	<u>9,961</u>	<u>9,982</u>	<u>9,165</u>

Reserves

	2004 £000	2003 £000	2002 £000
Profit and loss deficiency as stated in balance sheet	(3,198)	(3,583)	(3,597)
Pension provision	-	300	-
FRS 17 defined benefit liability	<u>(1,588)</u>	<u>(1,482)</u>	<u>(1,985)</u>
Profit and loss reserve including amounts relating to defined benefit liabilities	<u>(4,786)</u>	<u>(4,765)</u>	<u>(5,582)</u>

Notes to the financial statements

at 31 December 2004

18. Ultimate parent company

The ultimate parent undertaking is TUV Suddeutschland Holding AG, a company incorporated in Germany. An English copy of the accounts of TUV Suddeutschland Holding AG is available from:

TUV Suddeutschland Holding AG
Westendstrasse 199
D-80686 Munich
Germany