

Darchem Engineering Limited

Report and Financial Statements

30 September 2017



Darchem Engineering Limited

Directors

S Nolan
S Wray
W Meijer

Secretary

Taylor Wessing LLP

Auditors

Ernst & Young LLP
Citygate
St James' Boulevard
Newcastle upon Tyne NE1 4JD

Bankers

HSBC Bank plc.
City of London Corporate Office
62-76 Park Street
London SE1 9WP

Solicitors

Taylor Wessing LLP
5 New Street Square
London EC4A 3TW

Registered Office

15 Atholl Crescent
Edinburgh EH3 8HA

Strategic report

The directors present their strategic report, directors' report and the financial statements for the year ended 30 September 2017.

Principal activity and review of the business

Darchem is a world class engineering company providing products and services primarily to meet the needs of its customers for engineered solutions to high temperature/thermal engineering problems.

Darchem is a market leader in the design, manufacture (and if required installation) of a wide range of high integrity engineered products in stainless steel and titanium as well as thermal insulation systems for aerospace, motorsport, marine defence, nuclear and oil & gas applications.

Darchem holds BS EN ISO 9001 together with a wide range of specific company approvals from its worldwide customer base. The company is accredited with environmental approval BS EN 14001 at its main site. The company also holds NADCAP approvals for the following processes at its main site; welding, NDT, chemical processing and non-conventional machining.

More information on the company's activities can be found on the company web site: www.darchem.co.uk.

The Strategic Report contains the Business Review and Principal Risks and uncertainties.

Business review and future developments

The company's key financial and other performance indicators during the year were as follows;

	<i>Year</i> <i>2017</i> <i>£000</i>	<i>Year</i> <i>2016</i> <i>£000</i>	<i>Change</i> <i>%</i>
Turnover	71,182	74,131	(4%)
Operating Profit	11,470	8,502	35%
Shareholders' funds	47,542	52,458	(9%)
Quick ratio	3.0	3.4	(12%)
Average number of employees	815	872	(7%)

Business review and future developments (continued)

Reported turnover remained relatively flat against the reported prior year. Commercial aerospace was impacted by reduced customer schedules during the year which we are anticipating will continue into 2018 although we are seeing some increase within the retrofit programmes. In other markets, lower commodity prices including oil continue to provide challenges within the offshore and petrochemical markets. Throughout the year we continue to invest in the business to position ourselves for the expected uplift within the nuclear sector in which we have been awarded several new contracts. Our order book to date is running higher than in 2016 and 2017 as we enter 2018, and we are anticipating increased sales volumes in 2018.

Operating profit was up 35% year on year. The reduction in sales and continued pricing pressures from customers has impacted on gross margin during the year. As mentioned above we continue to incur costs positioning ourselves to win fabrication work from the potential new build of nuclear power stations in the UK. Year on year the UK pound showed signs of strengthening against the dollar. This had a positive effect on our forward foreign currency contracts.

The Company is focusing on driving enterprise excellence throughout the organisation which we believe is key to realising growth.

Strategic report

Shareholders' funds have decreased by 9% during the year, primarily as a result of a dividend payment to our shareholders.

The company's quick ratio (current assets minus stock/current liabilities) shows a significant decrease mainly as a consequence of the dividend payment to our shareholders during the year.

The average number of employees has reduced by 7% from last year. We continue to retain and invest staff in certain sectors but have seen levels reducing within the markets affected by down turn in volumes. With expected increase in the nuclear sector, we expect employee numbers to increase in future years.

As already mentioned, we are entering 2018 with relatively higher order book than in 2016 and 2017, however, with the Brexit vote comes uncertainty, the impact of which is unknown. The growth in the nuclear sector should provide growth opportunities going forward, although from past experiences are susceptible to delays.

Principal risks and uncertainties

Competitive risk

The company competes in an open market environment. The company's customers select suppliers based on a combination of factors including price, delivery, quality and reputation. The company reviews key performance indicators (KPIs) to monitor its competitive position. The company also aims to secure long term contracts with customers to help mitigate any risk.

Financial risk management policy

The company's principal financial instruments comprise cash, and group loans. Other financial assets and liabilities, such as trade debtors, trade creditors and group balances, arise directly from the company's operating activities.

The main risks associated with the company's financial assets and liabilities are set out below.

Interest rate risk

The company invests surplus cash in a floating rate interest yielding bank deposit account. Interest is charged at a variable rate on group loans. Therefore financial assets, liabilities, interest income and interest charges and cash flows can be affected by movements in interest rates. However, the exposure is reduced as these cash flows largely offset each other.

Principal risks and uncertainties (continued)

Financial risk management policy (continued)

Credit risk

The risk of financial loss due to a counterpart's failure to honour its obligations arises principally in relation to transactions where the company provides goods and services on extended terms. The company also loans money to fellow group undertakings and therefore there is a risk that an element of this may not be recovered.

Company policies are aimed at minimising such losses, and require that extended 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.

Liquidity risk

The company aims to mitigate liquidity risk by managing cash generated by its operations. Capital expenditure is approved at group level. Flexibility is maintained by retaining surplus cash in readily accessible bank deposit financial statements.

Foreign currency risk

The company's principal transactions in foreign currency are trading (sales) balances denominated in currencies other than sterling. As a result the value of company's non-sterling revenues, purchases,

Strategic report

financial assets and liabilities and cash flows can be affected by movements in exchange rates in general and in US Dollar and Euro exchange rates in particular. Hedging activity is undertaken locally to mitigate this risk. The company only utilises fixed forward currency contracts to manage identified exposures and does not trade in such instruments for speculative purposes. At 30 September 2017, the value of unsettled foreign exchange forward contracts in the company was estimated at £16,268,270 based on the exchange rate prevailing at that date, being the gross commitment to sell foreign currency.

Going Concern

The Company has considered financial resources together with long-term contracts with customers and suppliers across different segments and geographical areas. As a consequence, the directors believe the company is well placed to manage its business risks successfully. 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, they continue to adopt the going concern basis in preparing the annual report and accounts.

Approved by the Board on 28 June 2018 and signed on its behalf by:



S Wray

Director

28 June 2018

Registered No. SC144767

Directors' report

The directors present their report and financial statements for the year ended 30 September 2017.

Certain information, including principal activities, review of business and financial risks is not shown in the Directors' Report because it is shown in the strategic report instead under S414 C (11).

Results and dividends

The profit for the year after tax amounted to £10,084,000 (2016 – £8,524,000). Dividends of £15,000,000 were paid during the year (2016 – £ NIL).

Research and development

Research and development activities are directed principally towards the development of new products and improving the performance and cost effectiveness of existing products.

Directors

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

R D George (Resigned 1st March 2018)

S Nolan (Appointed 1st March 2018)

S Wray

W Meijer

Policy and practice on payment of creditors

The company agrees with suppliers the terms and conditions under which business transactions are conducted, including terms of payment. It is company policy that payments to suppliers are made in accordance with agreed terms unless the supplier fails to honour its obligations. At 30 September 2017 the company had an average of 39 days (2016 – 40 days) purchases outstanding in trade creditors.

Employees

The company gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person.

If an existing employee becomes disabled, it is the company's policy, wherever practicable, to provide continuing employment under normal terms and conditions and to provide training and career development wherever appropriate.

During the year the policy of providing information about the company has been achieved through the production and distribution on a regular basis of news bulletins for employees. Regular meetings are held between management and employees to allow a free flow of information and ideas.

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 is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditors

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

On behalf of the Board

A handwritten signature in black ink, appearing to read 'S Wray', with a stylized flourish at the end.

S Wray
Director

28 June 2018

Statement of directors' responsibilities

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 in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS102 "The Financial Reporting standard applicable in the UK and the 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 year. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments 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 auditors' report

to the members of Darchem Engineering Limited

Opinion

We have audited the financial statements of Darchem Engineering Limited for the year ended 30 September 2017 which comprise the Income Statement, the Statement of comprehensive income, the Statement of changes in equity, the Statement of Financial Position and the related notes 1 to 25, 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 30 September 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.

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.

Independent auditors' report

to the members of Darchem Engineering Limited

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.

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.

Independent auditors' report

to the members of Darchem Engineering Limited

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 W

Caroline Mulley (Senior statutory auditor)

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

Newcastle upon Tyne

29 June 2018

Income Statement

for year ended 30 September 2017

	Notes	2017 £000	2016 £000
Turnover	2	71,182	74,131
Cost of sales		(53,716)	(54,654)
Gross Profit		17,466	19,477
Distribution costs		(1,051)	(2,208)
Administrative expenses	3	(5,602)	(8,767)
Other operating income	3	657	-
Operating Profit	3	11,470	8,502
Interest payable and similar charges	6	(16)	(73)
Interest receivable and similar income	7	114	266
Profit on ordinary activities before taxation		11,568	8,695
Taxation	8	(1,484)	(171)
Profit on ordinary activities after taxation		10,084	8,524

All of the activities of the company are classed as continuing

Statement of Comprehensive Income

for year ended 30 September 2016

There are no recognised gains or losses other than the profit attributable to the shareholders of the company of £10,084,000 in the year to 30 September 2017 (2016 – £8,524,000).

Statement of Changes in Equity

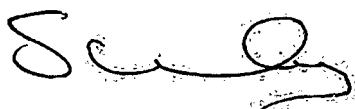
	Share capital £	Share Premium £	Profit and loss account £	Total £
At 2 October 2015	12,927	1,687	29,320	43,934
Profit for the year	-	-	8,524	8,524
Dividends paid during the year	-	-	-	-
At 30 September 2016	12,927	1,687	37,844	52,458
Profit for the year	-	-	10,084	10,084
Dividends paid during the year	-	-	(15,000)	(15,000)
At 30 September 2017	12,927	1,687	32,928	47,542

Statement of Financial Position

at 30 September 2017

		30 September 2017 £000	Restated 30 September 2016 £000
	Notes		
Fixed assets			
Tangible assets	10	18,088	18,388
Investments	11	-	1,669
		<u>18,088</u>	<u>20,057</u>
Current assets			
Stocks	12	12,824	11,522
Debtors: amounts falling within one year	13	18,325	20,319
Debtors: amounts falling due greater than one year – deferred tax	8	351	113
Cash at bank and in hand		<u>12,487</u>	<u>18,504</u>
		<u>43,987</u>	<u>50,458</u>
Creditors: amounts falling due within one year	14	<u>(10,903)</u>	<u>(12,616)</u>
Net current assets		<u>33,084</u>	<u>37,842</u>
Total assets less current liabilities		<u>51,172</u>	<u>57,899</u>
Creditors: amounts falling due greater than one year	15	<u>(2,450)</u>	<u>(4,230)</u>
Accruals and deferred income	16	<u>(1,180)</u>	<u>(1,211)</u>
Net Assets		<u>47,542</u>	<u>52,458</u>
Capital and reserves			
Called up share capital	17	12,927	12,927
Share premium		1,687	1,687
Profit and loss account		<u>32,928</u>	<u>37,844</u>
Shareholders' funds		<u>47,542</u>	<u>52,458</u>

The financial statements were approved for issue by the board of directors and signed on their behalf by:



S Wray

Director

28 June 2018

Notes to the financial statements

at 30 September 2017

1. Accounting policies

Statement of compliance

Darchem Engineering Limited is a limited liability company incorporated in England. The Registered Office is 15 Atholl Crescent, Edinburgh EH3 8HA.

The company's financial statements have been prepared in compliance with FRS 102 as it applies to the financial statements of the company for the year ended 30 September 2017.

In these financial statements, the company has applied the exemptions available under FRS 102 in respect of the following disclosures:

- the requirements of Section 4 Statement of Financial Position paragraph 4.12(a)(iv)
- the requirements of Section 7 Statement of Cash Flows
- the requirements of Section 11 Basic Financial Instruments paragraphs 11.39 to 11.48A
- the requirements of Section 33.7 and 33.1A Related Party Disclosures

The group in which the results of the company are consolidated is Darchem Holdings Limited.

Consolidated financial statements of Darchem Holdings Limited are available to the public and may be obtained from 5 New Street Square, London EC4A 3TW.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards.

The accounting principles used to prepare the financial statements are based on historical cost, unless stated otherwise.

The financial statements are prepared in GBP sterling which is the functional currency of the company, and are rounded to the nearest thousand.

Group financial statements

The company has taken advantage of the exemption from the requirement to prepare group financial statements under Section 400 of the Companies Act 2006, and accordingly the financial statements present information about the company as an individual and not about its group. The company's parent undertaking is Darchem Holdings Limited, a company incorporated in England.

Tangible fixed assets

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal annual instalments over their estimated useful economic lives, as follows:

Freehold buildings	– 50 years
Leasehold land and buildings	– over the lease term
Plant and machinery	– 3 to 15 years

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.

Stocks

Stocks are stated at the lower of cost and net realisable value. In determining the cost of raw materials, consumables and goods purchased for resale, the weighted average purchase price is used. For work in progress and finished goods, cost is taken as production cost, which includes an appropriate proportion of attributable overheads.

Notes to the financial statements

at 30 September 2017

1. Accounting policies (continued)

Long-term contracts

The amount of profit attributable to the stage of completion of a long term contract is recognised when the outcome of the contract can be foreseen with reasonable certainty. Turnover for such contracts is stated at cost appropriate to their stage of completion plus attributable profits, less amounts recognised in prior years. Provision is made for any losses as soon as they are foreseen.

Contract work in progress is stated at costs incurred, less those transferred to the profit and loss account, after deducting foreseeable losses and payments on account not matched with turnover.

Amounts recoverable on contracts are included in debtors and represent turnover recognised in excess of payments received on account.

Deferred taxation

Deferred taxation 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 right to pay less or to receive more, tax.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the years in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

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 other operating expenses.

Derivative instruments

The company uses forward foreign currency contracts to reduce exposure to foreign exchange rates.

Derivative financial instruments are initially measured at fair value on the date on which a derivative contract is entered into and are subsequently measured at fair value through profit and loss. Derivative are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The fair value of the forward currency contracts is calculated by reference to current forward exchange contracts with similar maturity profiles.

The company does not undertake any hedge accounting transactions.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date and any gains or losses on translation are taken to the profit and loss account.

Leasing commitments

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the assets have passed to the company are capitalised in the balance sheet and are depreciated over the shorter of the lease term and the asset's useful lives. A corresponding liability is recognised for the lower of the fair value of the leased asset and the present value of the minimum lease payments in the balance sheet. Lease payments are apportioned between the reduction of the lease liability and the finance charges in the income statement so as to achieve a constant rate of interest on the remaining balance of the liability.

Operating lease rentals are charged to the profit and loss account on a straight-line basis over the period of the lease.

Notes to the financial statements

at 30 September 2017

1. Accounting policies (continued)

Post-retirement benefits

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting year.

Research and development expenditure

Expenditure on research and development is written off to the profit and loss account in the year in which it is incurred.

Share-based payments

Certain employees have been granted share options in the ultimate parent undertaking. The fair value of options granted, if material, is recognised as an employee expense in the income statement with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options is measured using the "Black-Scholes" option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised in the income statement, if material, is adjusted at each balance sheet date to reflect the number of share options that vest revised for expected leavers and estimated achievement of non-market based vesting conditions.

Government grants

Grants relating to expenditure on tangible fixed assets are credited to deferred income and amortised to the profit and loss account over the useful economic lives of the assets to which they relate. Grants of a revenue nature are credited to income in the year to which they relate.

Prior year restatement

An adjustment to the 2016 comparatives has been recorded to reclassify deferred income of £1.09m from work in progress to deferred income. This adjustment has the effect of increasing work in progress and deferred income by £1.09m, has nil impact on net current assets, nil impact on net assets and nil impact on the profit before tax for the period reported in 2016.

Judgements and key sources of estimation uncertainty

The preparation of the 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 judgements and estimates have had the most significant effect on amounts recognised in the financial statements.

Taxation

The Company establishes provisions based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience with previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority.

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 an assessment of the effect of future tax planning strategies. Further details are contained in note 8.

Long term contracts

The Company estimates the stage of completion in order to determine revenue to be recognised. This is based on an estimate of costs to complete the project and factors in due considerations of changes in scope that may arise during the projects.

Notes to the financial statements

at 30 September 2017

2. Turnover

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties, except in respect of long-term contracts where turnover represents the sales value of work done in the year, including estimates in respect of amounts not invoiced. Turnover in respect of long-term contracts is calculated as that proportion of total contract value which costs incurred to date bear to total expected costs for that contract.

An analysis of turnover by geographical market has not been disclosed. The directors are of the opinion that to disclose such information could be prejudicial to the interests of the company.

3. Operating Profit

This is stated after charging/(crediting):

	2017 £000	2016 £000
Auditors' remuneration – audit	58	52
– other services	56	56
Depreciation of owned fixed assets (see note 10)	1,771	1,804
Depreciation of assets held under finance leases and Hire purchase contracts	285	104
Operating lease rentals – plant and machinery	126	116
– other assets	310	276
Research and development	85	85
Government Grants	(31)	(56)
Provision against loan to group undertaking	-	160
Restructuring Costs	465	
Exchange losses	4,081	565
Loss on Disposal of Fixed Assets	21	4
Royalty income received	(336)	-
Insumat Ltd waiver of interco balance on wind up	(321)	-
Fair value movement of the forward rate contracts	(3,291)	3,876

4. Directors' remuneration

	2017 £000	2016 £000
Remuneration	310	343
Company contributions paid to defined contribution pension schemes	17	23
	No.	No.
Members of the money purchase pension schemes	2	3

The highest paid director received remuneration of £192,000 (2016- £209,000). Company contributions paid to money purchase pension schemes with respect to this director were £13,000 (2016- £11,000) In addition, exercised share options during the year issued by the ultimate parent company and a gain of £84,000 was realised. In the director's opinion, the costs associated with the director not based in the United Kingdom are not material and therefore no remunerations are included for their services as directors.

Notes to the financial statements

at 30 September 2017

5. Staff costs

	2017 £000	2016 £000
Wages and salaries	27,177	26,859
Social security costs	2,595	2,521
Other pension costs (note 19)	1,303	1,276
	<u>31,075</u>	<u>30,656</u>

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

	No.	No.
Manufacturing	556	606
Administration	259	266
	<u>815</u>	<u>872</u>

6. Interest payable and similar charges

	2017 £000	2016 £000
Finance charges payable under finance leases	<u>16</u>	<u>73</u>

7. Interest receivable and similar income

	2017 £000	2016 £000
Bank interest receivable	17	30
Interest receivable from group undertakings	97	236
	<u>114</u>	<u>266</u>

Notes to the financial statements

at 30 September 2017

8. Tax

(a) Tax on profit on ordinary activities

The tax credit is made up as follows:

	2017	2016
	£000	£000
Current tax:		
UK Corporation tax	1,722	-
Adjustments in respect of prior years	-	-
Total current tax	1,722	-
Deferred tax:		
Origination and reversal of timing differences	(238)	171
Total deferred tax (note 8(c))	(238)	171
Tax on profit on ordinary activities	1,484	171

(b) Factors affecting tax credit for the year

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 19.5% (2016 – 20.00%). The differences are explained below:

	2017	2016
	£000	£000
Profit on ordinary activities before tax	11,568	8,695
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.50% (2016 – 20.00%)	2,256	1,739
Effects of:		
Expenses not deductible for tax purposes	123	138
Group relief not paid for	(582)	(1,417)
Adjustments to deferred tax charge in respect of prior years	(303)	(309)
Rate Change	(10)	20
Total tax expense (note 8(a))	1,484	171

The adjustment to tax charges in respect of prior years has arisen due to a Group policy to not pay fellow group undertakings for any group relief received in previous years.

8. Tax (continued)

(c) Deferred tax

	£000
At 30 September 2016	(113)
Credit to the profit and loss account during the year (note 8(a))	(238)
At 30 September 2017	(351)

Notes to the financial statements

at 30 September 2017

The elements of deferred taxation are as follows:

	2017 £000	2016 £000
Differences between accumulated depreciation and amortisation and capital allowances	(291)	(94)
Other timing differences	(60)	(19)
Deferred tax Asset	<u>(351)</u>	<u>(113)</u>

9. Dividends

	2017 £000	2016 £000
Equity shares:		
Dividend paid	15,000	-
Final dividend proposed	-	-

10. Tangible fixed assets

	Freehold land and buildings £000	Short- leasehold land and buildings £000	Plant and machinery £000	Total £000
Cost:				
At 30 September 2016	15,602	476	18,583	34,661
Additions	10	562	1,206	1,778
Disposals	-	-	(57)	(57)
At 30 September 2017	<u>15,612</u>	<u>1,038</u>	<u>19,732</u>	<u>36,382</u>
Depreciation:				
At 30 September 2016	2,221	432	13,620	16,273
Charge for the year	323	297	1,436	2,056
Disposals	-	-	(35)	(35)
At 30 September 2017	<u>2,544</u>	<u>729</u>	<u>15,021</u>	<u>18,294</u>
Net book value:				
At 30 September 2017	<u>13,068</u>	<u>309</u>	<u>4,711</u>	<u>18,088</u>
At 30 September 2016	<u>13,381</u>	<u>44</u>	<u>4,963</u>	<u>18,388</u>

The net book value of freehold land and buildings includes £2,461,364 (2016 - £2,184,000) in respect of a sale and leaseback of a property resulting in a finance lease. Included within Freehold land and buildings above are assets in the course of construction of £273,381 (2016 - £255,156) which are not depreciated.

Notes to the financial statements

at 30 September 2017

11. Investments

*Shares in
group
undertakings
£000*

Shares

Cost:

At 30 September 2016

1,669

Amounts disposed during the year

(1,669)

Net book value:

At 30 September 2017

-

On 13 June 2017, the members filed for a voluntary wind up of Insumat Limited and the Company was dissolved on 13th September 2017. The carrying value of the investment was recovered in full through the winding up process.

12. Stocks

	<i>2017</i>	<i>Restated 2016</i>
	<i>£000</i>	<i>£000</i>
Raw materials and consumables	7,334	6,532
Work in progress	4,045	4,042
Finished goods and goods for resale	1,445	948
	<u>12,824</u>	<u>11,522</u>

During the year £13,214,000 (2016: £14,214,000) was recognised as an expense through cost of sales.

The following amounts are recorded in respect of long term contracts:

	<i>2017</i>	<i>2016</i>
	<i>£000</i>	<i>£000</i>
Amounts recoverable on contracts included in debtors	1,155	1,367
Deferred revenue on contracts included in creditors	548	1,091

Notes to the financial statements

at 30 September 2017

13. Debtors

	2017	2016
	£000	£000
Trade debtors	14,734	16,741
Loans to group undertakings	1,673	1,589
Other debtors	14	266
Prepayments and accrued income	382	308
Amounts recoverable on contracts	1,155	1,367
Amounts owed from group undertakings	367	48
	<u>18,325</u>	<u>20,319</u>

14. Creditors: amounts falling due within one year

	2017	Restated 2016
	£000	£000
Trade creditors	4,284	4,234
Amounts owed to group undertakings	899	2,261
Obligations under Finance leases and hire purchase agreements (note 20)	247	161
Tax and social security costs	1,031	753
Derivative Financial Instruments (note 24)	1,600	2,919
Other creditors	227	232
Accruals and deferred Income	1,812	2,056
Corporation Tax	803	-
	<u>10,903</u>	<u>12,616</u>

15. Creditors: amounts falling due greater than one year

	2017	2016
	£000	£000
Obligations under Finance Leases and hire purchase agreements (note 20)	2,324	2,132
Derivative Financial Instruments (note 24)	126	2,098
	<u>2,450</u>	<u>4,230</u>

16. Accruals and deferred income

	2017	2016
	£000	£000
Government Grants		
At 30 September 2016	1,211	1,267
Amortised	(31)	(56)
At 30 September 2017	<u>1,180</u>	<u>1,211</u>

Notes to the financial statements

at 30 September 2017

17. Issued share capital

		2017		2016
<i>Allotted, called up and fully paid</i>	<i>No.</i>	<i>£000</i>	<i>No.</i>	<i>£000</i>
Ordinary shares of £1 each	12,927,000	<u>12,927</u>	12,927,000	<u>12,927</u>

18. Guarantees and commitments

- (a) Capital commitments at the end of the financial year, for which no provision has been made, are as follows:

	2017	2016
	<i>£000</i>	<i>£000</i>
Contracted	<u>320</u>	<u>180</u>

- (b) The company has underwritten the financial liability of certain employees at the year-end relating to an employee car ownership scheme amounting to £361,000 (2016 – £324,000)

19. Pensions

The company operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the company to the scheme and amounted to £1,303,000 (2016 – £1,276,000). Contributions amounting to £132,000 (2016 – £133,000) were payable to the scheme and included in creditors.

20. Obligations under leases

The company's commitments to future minimum lease payments due under finance leases are as follows:

	2017	2016
	<i>£000</i>	<i>£000</i>
Amounts Payable:		
Within one year	300	300
In two to five years	1,200	1,200
Over 5 Years	<u>1,350</u>	<u>1,650</u>
	2,850	3,150
Less: finance charges allocated to future years	<u>(279)</u>	<u>(857)</u>
	<u>2,571</u>	<u>2,293</u>

Notes to the financial statements

at 30 September 2017

The company has future minimal rentals payable under non-cancellable operating leases as set out below:

	2017		2016	
	<i>Land and buildings</i>	<i>Other</i>	<i>Land and buildings</i>	<i>Other</i>
	£000	£000	£000	£000
Operating leases which expire:				
Within one year	10	86	10	112
In two to five years	29	67	34	74
Over five years	-	-	-	-
	<u>39</u>	<u>153</u>	<u>44</u>	<u>186</u>

21. Related party transactions

The company has not disclosed transactions with other Group companies or key management personnel, as it has taken advantage of the exemption contained within FRS 102.33.1A and FRS102.33.7 on the grounds that the subsidiaries are wholly owned.

22. Ultimate parent undertaking and controlling party

The immediate parent company is Darchem Holdings Limited.

The directors consider the ultimate parent undertaking and controlling party to be Esterline Technologies Corporation, a company incorporated in the United States of America. This is the parent of the largest group for which financial statements are prepared and of which the company is a member.

The group financial statements, which include the company, may be obtained from:

Esterline Technologies Corporation
500 108th Avenue NE
Suite 1500
Bellevue, WA 98004, USA.

The intermediate parent undertaking is Darchem Holdings Limited, who prepare and publish group financial statements in the UK. These will be available from Companies House in due course.

23. Reserves

Share premium account

The reserve records the amount above the nominal value received for shares sold, less transaction costs.

Profit and loss account

This records cumulative amount of profits and losses less and dividend distributions paid.

Notes to the financial statements

at 30 September 2017

24. Financial Instruments

	<i>Year ended 30 September 2017 £000</i>	<i>Year ended 30 September 2016 £000</i>
<i>Financial assets measured at amortised cost</i>		
Trade Debtors	14,734	16,741
Loans to group undertakings	1,673	1,589
Amounts Recoverable on contracts	1,155	1,367
Other debtors	14	266
Cash and Bank	12,487	18,504
Amounts due from group undertakings	367	48
	<u> </u>	<u> </u>
	<i>Year ended 30 September 2017 £000</i>	<i>Year ended 30 September 2016 £000</i>
<i>Financial liabilities measured at amortised cost</i>		
Trade Creditors	4,284	4,234
Amounts owed to group undertakings	899	2,261
Obligations under finance leases and hire purchase agreements	2,571	2,293
Accruals and other creditors	3,070	3,041
	<u> </u>	<u> </u>
	<i>Year ended 30 September 2017 £000</i>	<i>Year ended 30 September 2016 £000</i>
<i>Financial liabilities measured at fair value</i>		
Forward foreign currency contracts	1,726	5,017
	<u> </u>	<u> </u>

25. Events after the reporting Year

The Company has entered into a partnering agreement with Efinor Ltd and have formed "EDEL", an unincorporated Joint Venture. The purpose of the agreement is to establish a long-term partnering relationship whereby each "partner" has agreed to associate as independent contractors, and the agreement expressly states that it is not written to create a partnership between the parties.