Bosch Rexroth Limited

Annual report and financial statements for the year ended 31 December 2017

Company Number: 00768471

Incorporated: 22 July 1963

Company information for the year ended 31 December 2017

Directors	P.A. Bowden
	Dr S.T. Hoffmann
	H.J. Von Hebel (Resigned 25 July 2017)
	A.J. Johnstone
	K.F. Nilner
	G.M. Rowell
	L.A. Wintjes (Resigned 19 July 2017)
Company Secretary	Mr. J. Burton
Company number	00768471
Registered office	15 Cromwell Road
	St. Neots
	Cambridgeshire
	PE19 2ES
Independent auditors	PricewaterhouseCoopers LLP
	Chartered Accountants and Statutory Auditors
	The Atrium
	Harefield Road
	Uxbridge
	UB8 1EX

Contents

Strategic report for the year ended 31 December 2017

(All amounts in £ thousands unless otherwise stated)

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

Principal activities

The company's principal activity during the year was the sales, marketing, distribution and servicing of drive and control solutions to the following markets: mobile machinery, machinery application and engineering and factory automations.

Review of the business

In 2017, turnover increased from £164,499 to £185,047 and profit before income tax increased from a profit of £6,424 in 2016 to a profit before income tax of £7,954.

The underlying operating profit has increased from £6,395 to £8,292. The increased sales performance was offset by a mix change in the business where much of the incremental business was with lower margin products. The company continues to successfully manage and monitor its controllable overheads which reduced despite the turnover increase.

The statement of financial position at the end of the year improved upon prior year as a result of:

- continued receivables payment controls, despite the revenue increases;
- the timing of creditor payments moved across the year end; and
- the reduction in the pension liability due to actuarial gains.

Principal risks and uncertainties

a) Financial risk management

The company's operations expose it to a variety of financial risks that include the effects of changes in price risk, credit risk, liquidity risk and interest rate risk. The company has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the company by monitoring levels of debt finance and the related finance costs. The company does not use derivative financial instruments to manage interest rate costs and as such no hedge accounting is applied.

Given the size of the company, the Directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the Board. The policies set by the Board of Directors are implemented by the company's finance department.

b) Price risk

The company is exposed to commodity price risk as a result of its operations. However, given the size of the company's operations, the costs of managing exposure to commodity price risk exceed any potential benefits. The Directors will continue to revisit the appropriateness of this policy should the company's operations change in size or nature.

c) Credit risk

Credit risk arises from cash and cash equivalents, and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions. If wholesale customers are independently rated, these ratings are used. If there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set by the Board. The utilisation of credit limits is regularly monitored. The amount of exposure to any individual counterparty is subject to a limit, which is reassessed annually by the Board.

Strategic report for the year ended 31 December 2017

(All amounts in £ thousands unless otherwise stated)

d) Liquidity risk

The company currently has no requirements for debt finance outside the Robert Bosch Group.

Principal risks and uncertainties (continued)

e) Interest rate cash flow risk

The company has interest bearing assets in the form of cash-pool balances held by Robert Bosch UK Holdings Limited. The interest bearing assets are in the form of cash balances, the interest rate received on these balances is at the market rate. The company has a policy of maintaining debt at a fixed rate to ensure the certainty of future cash flows. These policies thereby limit the interest rate and cash flow risk.

Key performance indicators

The company has consolidated its performance during 2017 and continues to develop future growth by successfully distributing products and by servicing its customers. Progress is monitored by the Board and the divisional Directors by reference to the following KPIs:

	2017	2016	
Growth in sales (%)	**12.5**	3.2	Year on year sales growth expressed as a percentage.
Operating margin (%)	**4.5**	3.9	Operating margin is the ratio of operating profit (before exceptional items) to sales, expressed as a percentage.
Return on invested capital (%)	**15.1**	12.7	Operating profit expressed as a percentage of net assets (excluding pension deficit).
Value added per employee (£'000)	**47.5**	44.3	Value added is turnover less cost of material, divided by average employee capacity.

Environmental matters

In accordance with Bosch core values, the company continues to understand and improve its impact on the environment. This includes, but is not limited to, regular reviews of energy and packaging usage, developing products that are power efficient, and capital expenditure on its assets to improve overall efficiency.

Going concern

The ultimate parent company, Robert Bosch GmbH, has confirmed it will provide financial support as necessary for the company to meet its liabilities as they fall due for a period of at least 12 months from the date of approval of these financial statements.

Strategic report for the year ended 31 December 2017 (continued)

(All amounts in £ thousands unless otherwise stated)

On behalf of the Board

Mr. G.M. Rowell

Finance Director

22 June 2018

Directors' report for the year ended 31 December 2017

(All amounts in £ thousands unless otherwise stated)

The Directors present their report and the audited financial statements of the company for the year ended 31 December 2017.

Future developments

The company has taken the decision as allowed under s414C of the Companies Act 2006 not to disclose information about impending developments or matters in the course of negotiation as, in the opinion of the Directors, such disclosure would be seriously prejudicial to the interests of the company.

Proposed dividend

The Directors have proposed a final ordinary dividend in respect of the current financial year of £6,150, equivalent to 41,837p per share. This has not been included within creditors as it was not approved before the year end.

No dividends were paid during the year in respect of the previous year ended 31 December 2016.

Political donations and political expenditure

There were no political donations during the year (2016: £Nil).

Directors

The Directors who held office during the year and up to the date of signing of the financial statements were as follows:

P.A. Bowden

S. Hoffmann

H.J. Von Hebel (Resigned 25 July 2017)

A.J. Johnstone

K.F. Nilner (Appointed 31 July 2017)

G.M. Rowell

L.A. Wintjes (Resigned 19 July 2017)

Qualifying third-party and pension scheme indemnity provisions

The Robert Bosch group maintains liability insurance for its Directors and officers. The group has also provided an indemnity for its Directors and secretary, which is a qualifying third party indemnity provision for the purposes of the Companies Act 2006. This indemnity was in place during the financial year and continues to be in place at the date of the approval of these financial statements.

Research and development

During the year the company continued to progress its R&D activities. The efforts and expenditure here are primarily in the area of Radial Piston Motors which the company manufactures in its plant in Glenrothes. Expenditure on R&D in 2017 totalled £1,743.

Directors' report for the year ended 31 December 2017 (continued)

(All amounts in £ thousands unless otherwise stated)

Events after the end of the reporting period

Subsequent to the date of the statement of financial position, there were no events that are not disclosed in these financial statements.

Employees

Consultation with employees or their representatives has continued at all levels, with the aim of ensuring that their views are taken into account when decisions are made that are likely to affect their interests and that all employees are aware of the financial and economic performance of their business units and of the company as a whole. Communication with all employees continues through the in-house newspaper and newsletters and various briefing groups.

The company is an equal opportunities employer. Applications for employment are always fully considered irrespective of gender, ethnic origin, race, religion, sexual orientation or disability.

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

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual 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 prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting 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 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.

The Directors 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.

Directors' report for the year ended 31 December 2017 (continued)

(All amounts in £ thousands unless otherwise stated)

Disclosure of information to Auditors

The Directors who held office at the date of approval of this Directors' report confirm that:

- As far as they are each aware, there is no relevant audit information of which the company's Auditors are unaware; and
- each Director has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the company's Auditors are aware of that information.

Independent Auditors

The Auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the Annual General Meeting.

By order of the Board

Mr. G.M. Rowell

Finance Director

22 June 2018

Independent auditors' report to the members of Bosch Rexroth Limited

Report on the audit of the financial statements

Opinion

In our opinion, Bosch Rexroth Limited's 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 (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and financial statements ("the Annual Report"), which comprise: the statement of financial position as at 31 December 2017; the income statement, the statement of comprehensive income, the statement of changes in equity for the year then ended; the accounting policies; and the notes to the financial statements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- 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.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

Independent auditors' report to the members of Bosch Rexroth Limited (continued)

Reporting on other information (continued)

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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 6, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they 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 auditors' 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 FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Independent auditors' report to the members of Bosch Rexroth Limited (continued)

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Alex Hookway (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Uxbridge

25 June 2018

Income statement for the year ended 31 December 2017

(All amounts in £ thousands unless otherwise stated)

		Year ended 31 December	
Continuing operations	*Note*	**2017**	2016
Revenue	*4*	**185,047**	164,499
Cost of sales		**(152,337)**	(133,333)
Gross profit		**32,710**	31,166
Distribution costs		**(20,068)**	(20,491)
Administrative expenses		**(5,110)**	(6,297)
Other operating income		**760**	2,017
Operating profit	5	**8,292**	6,395
Finance income	*7*	**37**	49
Finance expenses	*7*	**(375)**	(20)
Finance (expenses)/income - net	*7*	**(338)**	29
Profit before income tax		**7,954**	6,424
Income tax expense	*8*	**(1,816)**	(1,347)
Profit for the financial year		**6,138**	5,077

The notes on pages 16 to 41 are an integral part of these financial statements.

All activity is derived from continuing operations.

Statement of comprehensive income for the year ended 31 December 2017

(All amounts in £ thousands unless otherwise stated)

		Year ended 31 December	
	Note	**2017**	2016
Profit for the financial year		**6,138**	5,077
Other comprehensive income/(expense): Items that will not be reclassified to profit and loss:			
Actuarial gains on pension scheme	*14*	**2,987**	(5,968)
Movement on deferred tax relating to pension deficit		**(508)**	753
Other comprehensive income/(expense) for the year, net of tax		**2,479**	(5,215)
Total comprehensive income/(expense) for the year		**8,617**	(138)

The notes on pages 16 to 41 are an integral part of these financial statements.

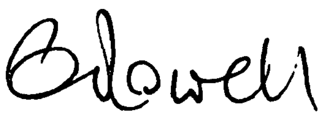
Statement of financial position

(All amounts in £ thousands unless otherwise stated)

	Note	As at 31 December 2017	2016
Fixed assets			
Property, plant and equipment	*9*	**12,806**	12,389
Investments		**-**	1
Deferred tax asset	*13*	**1,779**	2,498
		14,585	14,888
Current assets			
Inventories	*10*	**16,645**	11,257
Trade and other receivables (including £nil (2016: £nil) due after more than one year)	*11*	**41,795**	31,677
Cash and cash equivalents		**12,875**	14,745
		71,315	57,679
Creditors : amounts falling due within one year	*12*	**(28,630)**	(18,575)
Net current assets		**42,685**	39,104
Total assets less current liabilities		**57,270**	53,992
Provisions for liabilities	*13*	**(13,057)**	(18,396)
Net assets		**44,213**	35,596
Equity			
Called up share capital	*15*	**14,700**	14,700
Share premium account		**23,300**	23,300
Retained earnings/(accumulated losses)		**6,213**	(2,404)
Total shareholders' funds		**44,213**	35,596

The notes on pages 16 to 41 are an integral part of these financial statements.

The financial statements on pages 12 to 41 were authorised for issue by the Board of Directors on 22 June 2018 and were signed on its behalf.



Mr. G.M. Rowell

Finance Director

Bosch Rexroth Limited
Registered no. 00768471

Statement of changes in equity for the year ended 31 December 2017

(All amounts in £ thousands unless otherwise stated)

	Notes	Called up share capital	Share premium account	(Accumulated losses)/ Retained earnings	Total
Balance as at 1 January 2016		14,700	23,300	(2,266)	35,734
Profit for the financial year		-	-	5,077	5,077
Other comprehensive (expense)/income for the year:					
Actuarial losses on pension scheme	*14*	-	-	(5,968)	(5,968)
Current tax deductions allocated to actuarial losses		-	-	-	-
Movement on deferred tax relating to pension deficit		-	-	753	753
Total comprehensive expense for the year		-	-	(138)	(138)
Balance as at 31 December 2016		14,700	23,300	(2,404)	35,596
Balance as at 1 January 2017		14,700	23,300	(2,404)	35,596
Profit for the financial year		-	-	6,138	6,138
Other comprehensive income/(expense) for the year:					
Actuarial gains on pension scheme	*14*	-	-	2,987	2,987
Movement on deferred tax relating to pension deficit		-	-	(508)	(508)
Total comprehensive income for the year		-	-	8,617	8,617
Dividends	*15*	-	-	-	-
Total transactions with owners, recognised directly in equity		-	-	-	-
Balance as at 31 December 2017		**14,700**	**23,300**	**6,213**	**44,213**

The notes on pages 16 to 41 are an integral part of these financial statements.

Notes to the financial statements

(All amounts in £ thousands unless otherwise stated)

1 General information

Bosch Rexroth Limited sells, markets, distributes and services drive and control solutions to the following markets: mobile machinery, machinery application and engineering and factory automations.

The company is a private limited company and is incorporated and domiciled in the United Kingdom.

2 Significant accounting policies

The financial statements of Bosch Rexroth Limited have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings and derivative financial assets and financial liabilities measured at fair value through profit or loss, and in accordance with the Companies Act 2006.

2.1 Basis of Preparation

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payment' (details of the number and weighted average exercise prices of share options, and how the fair value of goods or services received was determined).
- IFRS 7, 'Financial instruments: Disclosures'.
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities).
- Paragraph 38 of IAS 1, 'Presentation of financial statements' – comparative information requirements in respect of:
    i. paragraph 79(a)(iv) of IAS 1;
    ii. paragraph 73(e) of IAS 16, 'Property, plant and equipment'; and
    iii. paragraph 118(e) of IAS 38, 'Intangible assets' (reconciliations between the carrying amount at the beginning and end of the period).
- The following paragraphs of IAS 1, 'Presentation of financial statements':
    i. 10(d) (statement of cash flows);
    ii. 16 (statement of compliance with all IFRS);
    iii. 38A (requirement for minimum of two primary statements, including cash flow statements);
    iv. 38B–D (additional comparative information);
    v. 111 (cash flow statement information); and
    vi. 134–136 (capital management disclosures).
- IAS 7, 'Statement of cash flows'.
- Paragraphs 30 and 31 of IAS 8, 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation).
- The requirements in IAS 24, 'Related party disclosures', to disclose related party transactions entered into between two or more members of a group.

Notes to the financial statements (continued)

(All amounts in £ thousands unless otherwise stated)

2.1.1 Going concern

The company meets its day-to-day working capital requirements through its cash reserves and borrowings. The company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the company should be able to operate within the level of its current cash reserves and borrowings. After making enquiries, the Directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The company therefore continues to adopt the going concern basis in preparing its financial statements. Further information on the company's borrowings is given in note 2.16.

2.1.2 New standards, amendments and IFRIC interpretations

No new accounting standards, or amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 December 2017 have had a material impact on the company.

2.2 Consolidation

The company is a wholly owned subsidiary of Robert Bosch UK Holdings Limited and of its ultimate parent, Robert Bosch GmbH. It is included in the consolidated financial statements of Robert Bosch GmbH, which are publicly available. Therefore the company is exempt, by virtue of section 400 of the Companies Act 2006, from the requirement to prepare consolidated financial statements. The address of the ultimate parent's registered office is Robert Bosch GmbH, Robert Bosch Platz 1, Gerlingen-Schillerhöhe, D-70049 Stuttgart, Germany.

These financial statements are separate financial statements.

2.3 Foreign currency translation

a) Functional and presentation currency

Items included in the financial statements of the company are measured using the currency of the primary economic environment in which the company operates ('the functional currency'). The financial statements are presented in 'Pounds Sterling' (£), which is also the company's functional currency.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges. All other foreign exchange gains and losses are presented in the income statement within 'Other operating income'.

2.4 Property, plant and equipment

Land and buildings comprise mainly factories, retail outlets and offices. Land and buildings are shown at fair value, based on valuations by external independent valuers, less subsequent depreciation for buildings. Valuations are performed with sufficient regularity to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

All other property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost could also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Notes to the financial statements (continued)

(All amounts in £ thousands unless otherwise stated)

2.4 Property, plant and equipment (continued)

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of land and buildings are credited to other comprehensive income and shown as revaluation reserve in shareholders' funds. Decreases that offset previous increases of the same asset are charged in other comprehensive income and debited against revaluation reserve; all other decreases are charged to the income statement. Each year, the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement, and depreciation based on the asset's original cost, is transferred from revaluation reserve to retained earnings.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

– Long-term leasehold property and improvements 10 years or anticipated term of the lease if shorter

– Plant and machinery 3-10 years

– Furniture, fittings and equipment 3–10 years

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

An asset's carrying amount is written down immediately to its recoverable amount if it is greater than its estimated recoverable amount (note 2.8).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount, and they are recognised within 'Other income' in the income statement.

When revalued assets are sold, the amounts included in revaluation reserve are transferred to retained earnings.

2.5 Impairment of non-financial assets

Non-financial assets that are not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount might not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

2.6 Financial assets

2.6.1 Classification

The company classifies its financial assets in the following categories: at fair value through profit or loss; and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Notes to the financial statements (continued)

(All amounts in £ thousands unless otherwise stated)

a) *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if it is acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading, unless they are designated as hedges (see note 2.9). Assets in this category are classified as current assets if they are expected to be settled within 12 months; otherwise, they are classified as non-current investments.

b) *Loans and receivables*

Loans and receivables are non-derivative financial assets, with fixed or determinable payments, that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The company's loans and receivables comprise receivables, cash and commercial paper in the statement of financial position.

2.6.2 Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade date – that is, the date on which the company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred, and the company has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the 'fair value of the financial assets at fair value through profit or loss' category are presented in the income statement within interest income or expense in the period in which they arise.

2.7 Investment in subsidiaries

Investments in subsidiaries are held at cost less accumulated impairment losses.

2.8 Impairment of non-financial assets

Assets carried at amortised cost

The company assesses, at the end of each reporting period, whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

2.9 Derivative financial instruments and hedging activities

The company has not applied hedge accounting, and all derivatives are measured at fair value through profit and loss.

2.10 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Notes to the financial statements (continued)

(All amounts in £ thousands unless otherwise stated)

2.11 Trade and other receivables

Trade and other receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business, if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.12 Long term contract receivables

Long term contract receivables represent the gross unbilled amount for contract work performed to date. They are measured at cost plus profit recognised to date less a provision for foreseeable losses and less progress billings. Variations are included in contract revenue when they are reliably measureable and it is probable that the customer will approve the variation itself and the revenue arising from the variation. Claims are included in contract revenue only when they are reliably measureable and negotiations have reached an advanced stage such that it is probable that the customer will accept the claim.

Cost includes all expenditure related to directly to specific projects and an allocation of fixed and variable overheads incurred in the company's contract activities based on normal operating capacity.

Long term contract receivables are presented as part of debtors in the statement of financial position.

2.13 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. In the statement of financial position, bank overdrafts are shown within borrowings in current liabilities.

2.14 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.15 Creditors

Creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

Creditors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.16 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent that there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Notes to the financial statements (continued)

(All amounts in £ thousands unless otherwise stated)

2.17 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.18 Current and deferred tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in shareholders' funds. In this case, the tax is also recognised in other comprehensive income or directly in shareholders' funds, respectively.

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the date of the statement of financial position in the countries where the company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; or arise from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting, nor taxable, profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the date of the statement of financial position and are expected to apply when the related deferred tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.19 Employee benefits

The company operates various post-employment schemes, including both defined benefit and defined contribution pension plans.

(a) Pension obligations

A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. The company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan.

Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation.

Notes to the financial statements (continued)

(All amounts in £ thousands unless otherwise stated)

(a) Pension obligations (continued)

The liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period, less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to shareholders' funds in other comprehensive income in the period in which they arise.

The amount charged or credited to finance costs is a net interest amount calculated by applying the liability discount rate to the net defined benefit liability or asset.

Past service costs are recognised immediately in the income statement.

For defined contribution plans, the company pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The company has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

2.20 Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised where: the company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Reorganisation provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations is small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.21 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. The company recognises revenue when: the amount of revenue can be reliably measured; it is probable that future economic benefits will flow to the entity; and specific criteria have been met for each of the company's activities, as described below. The company bases its estimate of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sale of goods

Sales of goods are recognised when the company has delivered products to the customer, the customer has full discretion over the channel and price for selling the products onwards, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the customer, and

Notes to the financial statements (continued)

(All amounts in £ thousands unless otherwise stated)

either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed or the company has objective evidence that all criteria for acceptance have been satisfied. The company's products are often sold with volume discounts, and customers have a right to return faulty products in the wholesale market. Sales are recorded based on the price specified in the sales contracts, net of the estimated volume discounts and returns at the time of sale. Accumulated experience is used to estimate and provide for the discounts and returns. The volume discounts are assessed based on anticipated annual purchases. No element of financing is deemed present, because the sales are made with a credit term which is consistent with the market practice.

(b) Sale of services

The company sells design services to other manufacturers. For sales of services, revenue is recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction and assessed on the basis of the actual service provided as a proportion of the total services to be provided.

2.22 Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognised using the original effective interest rate.

2.23 Dividend income

Dividend income is recognised when the right to receive payment is established.

2.24 Leases

Leases in which substantially all of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2.25 Dividend distributions

Dividend distributions to the company's shareholders are recognised as a liability in the company's financial statements in the period in which the dividends are approved by the company's shareholders.

2.26 Financial guarantees

Financial guarantees are initially recognised at fair value and are subsequently measured at the higher of (a) the amount determined in accordance with IAS 37 and (b) the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with IAS 18.

3 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Notes to the financial statements (continued)

(All amounts in £ thousands unless otherwise stated)

Critical accounting estimates and assumptions (continued)

a) Useful economic lives of property, plant and equipment

The annual depreciation charge for property, plant and equipment is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are reassessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See note 9 for the carrying amount of the property, plant and equipment and note 2.4 for the useful economic lives for each class of assets.

b) Inventory provisioning

The company designs, manufactures and sells products and is subject to changing customer demands and economic trends. As a result it is necessary to consider the recoverability of the cost of the stock and the associated provisioning required. When calculating the stock provision, management considers the nature and condition of the stock, as well as applying assumptions around anticipated saleability of the finished goods and future usage of raw materials. See note 10 for the net carrying amount of the inventory and associated provision.

c) Impairment of trade receivables

The company makes an estimate of the recoverable value of trade and other debtors. When assessing impairment of trade and other receivables, management considers factors including the credit rating of the receivable, the ageing profile of receivables and the historical experience. See note 11 for the net carrying amount of the receivables and associated impairment provision.

d) Defined benefit pension

The company has an obligation to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including: life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation in the statement of financial position. The assumptions reflect historical experience and current trends. See note 0 for the disclosures of the defined benefit pension scheme.

e) Warranty provision

Provision is made for potential warranty costs on sales where the goods supplied are still within their warranty period. The provision is calculated on the basis of the actual cost of rectifying warranty failures and takes into account the time period before claims will be made. The calculation excludes those claims against which specific provision has already been made.

Notes to the financial statements (continued)

(All amounts in £ thousands unless otherwise stated)

4 Revenue

Analysis of revenue by geography:

	2017	2016
United Kingdom	**109,507**	96,807
Germany	**10,270**	8,922
Other EU countries	**21,878**	15,808
Rest of Europe	**384**	2,824
North America	**39,303**	36,759
Central and South America	**356**	793
Australia and South Pacific	**346**	601
Asia and Middle East	**3,003**	1,985
	185,047	164,499

All revenue earned is through sale of goods.

Notes to the financial statements (continued)

(All amounts in £ thousands unless otherwise stated)

5 Operating profit

Operating profit is stated after charging/(crediting):

	2017	2016
Wages and salaries	**28,179**	26,814
Social security costs	**3,659**	3,617
Other pension costs	**1,588**	1,901
Staff costs	**33,426**	32,332
Depreciation of owned property, plant and equipment	**1,746**	1,874
Loss on disposal of property, plant and equipment	**18**	13
Impairment of inventories (included in cost of sales)	**(466)**	1,419
Impairment of trade receivables	**36**	(4)
Inventories recognised as an expense	**5,529**	2,546
Operating lease expenses	**1,455**	1,729
Foreign exchange gains on trade receivables	**(448)**	(2,273)
Audit fees payable to the company's auditors	**67**	67

Notes to the financial statements (continued)

(All amounts in £ thousands unless otherwise stated)

6 Employees and Directors

Employees

The average monthly number of persons (including executive Directors) employed by the company during the year was:

By activity	2017 Number	2016 Number
Production / Engineering	**468**	481
Selling and distribution	**146**	145
Administration	**74**	78
	688	704

Directors

The Directors' emoluments were as follows:

	2017	2016
Aggregate emoluments	**557**	550

Post-employment benefits are accruing for 3 (2016: 3) Directors under a defined contribution scheme.

Highest paid Director

The highest paid Director's emoluments were as follows:

	2017	2016
Total amount of emoluments and amounts (excluding shares) receivable under long-term incentive schemes	**193**	180
Defined contribution scheme:		
- accrued pension at the end of the year	**10**	20

Notes to the financial statements (continued)

(All amounts in £ thousands unless otherwise stated)

7 Interest income and expense

Finance income

	2017	2016
Bank interest income	**37**	49
Total finance income	**37**	49

Finance expenses

	2017	2016
Bank borrowings	**-**	20
Net cost of post-employment benefits	**375**	-
Total finance expenses	**375**	20

Net finance income

	2017	2016
Interest income	**37**	49
Interest expenses	**(375)**	(20)
Total interest income/(expenses)	**(338)**	29

Interest income includes income from group undertakings of £37 (2016: £46).

Notes to the financial statements (continued)

(All amounts in £ thousands unless otherwise stated)

8 Income tax expense

Tax expense included in profit or loss:

	2017	2016
Current tax:		
- UK corporation tax on profits for the year	1,121	1,156
- UK corporation tax adjustments in respect of prior periods	44	(93)
- Foreign tax (less Double Taxation Relief) for the year	309	-
- Foreign tax adjustments in respect of prior periods	161	-
Total current tax	1,635	1,063
Deferred tax:		
- Origination and reversal of timing differences	270	253
- Impact of change in tax rate	(31)	(40)
- Adjustments in respect of prior periods	(58)	71
Total deferred tax	181	284
Tax on profit	1,816	1,347

Tax charge for the year is higher (2016: higher) than the standard rate of corporation tax in the UK for the year ended 31 December 2017 of 19.25% (2016: 20.00%). The differences are explained below:

	2017	2016
Profit before taxation	**7,954**	6,424
Profit before taxation multiplied by the standard rate of tax in the UK of 19.25% (2016: 20.00%)	**1,531**	1,285
Effects of:		
- Accelerated capital allowances	**50**	73
- Remeasurement of deferred tax – change in UK tax rate	**(31)**	(40)
- Expenses not deductible for tax purposes	**118**	52
- Current year foreign tax (less Double Taxation Relief)	**161**	-
- Prior year foreign tax (less Double Taxation Relief)	**309**	-
- Prior year UK corporation tax	**(264)**	(93)
- Prior year deferred tax	**(58)**	70
Tax charge/(credit)	**1,816**	1,347

Notes to the financial statements (continued)

(All amounts in £ thousands unless otherwise stated)

The tax rate for the current year is lower than the prior year, due to changes in the UK corporation tax rate which decreased from 20.00% to 19.00% from 1 April 2017.

Changes to the UK corporation tax rates were substantively enacted as part of the Finance Bill 2016 (on 26 October 2016). These include reductions to the main rate, to reduce the rate to 18.00% from 1 April 2020. Deferred taxes at the date of the statement of financial position have been measured using these enacted rates and are reflected in these financial statements.

9 Property, plant and equipment

	Long-term leasehold property and improvements	**Plant and machinery**	**Fixtures, fittings, tools and equipment**	**Assets under construction**	**Total**
At 1 January 2017					
Cost or valuation	13,535	21,293	10,364	1,050	46,242
Accumulated depreciation and impairment	(6,804)	(18,354)	(8,695)	-	(33,853)
Net book amount	6,731	2,939	1,669	1,050	12,389
Year ended 31 December 2017					
Additions	23	61	642	1,455	2,181
Disposals	-	(17)	(1)	-	(18)
Transfers	79	787	94	(960)	-
Depreciation	(374)	(679)	(693)	-	(1,746)
Closing net book amount	6,459	3,091	1,711	1,545	12,806
At 31 December 2017					
Cost or valuation	13,637	21,981	10,709	1,545	47,872
Accumulated depreciation and impairment	(7,178)	(18,890)	(8,998)	-	(35,066)
Net book amount	**6,459**	**3,091**	**1,711**	**1,545**	**12,806**

	2017	2016
Freehold	**6,171**	6,389
Short leasehold	**288**	342
Carrying value	**6,459**	6,731

Notes to the financial statements (continued)

(All amounts in £ thousands unless otherwise stated)

10 Inventories

	2017	2016
Raw materials and consumables	**3,685**	2,261
Work in progress	**3,949**	3,315
Finished goods and goods for resale	**9,296**	6,247
Payments on account	**(285)**	(566)
	16,645	11,257

There is no significant difference between the replacement cost of inventories and their carrying amounts.

Inventories are stated after provisions for impairment of £393 (2016: £73).

11 Trade and other receivables

	2017	2016
Trade receivables	**38,077**	29,580
Amounts owed by group undertakings	**2,974**	1,456
Other receivables	**310**	417
Prepayments and accrued income	**434**	224
	41,795	31,677
Due within one year	**41,795**	31,677
Due after more than one year	**-**	-

The amounts owed by group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

Trade receivables are stated after provisions for impairment of £562 (2016: £526).

Notes to the financial statements (continued)

(All amounts in £ thousands unless otherwise stated)

12 Creditors: amounts falling due within one year

	2017	2016
Bank loans and overdrafts	-	4
Trade creditors	9,014	5,038
Amounts owed to group undertakings	12,377	6,975
Taxation and social security	3,064	2,893
Other creditors	173	250
Accruals and deferred income	4,002	3,415
	28,630	18,575

The amounts owed to group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

13 Provisions for liabilities

	Contract loss provision	Contract penalty provision	Warranty provision	Holiday pay accrual	Deferred tax provision	Post-retirement benefits	Total
At 1 January 2017	235	47	3,010	184	222	14,698	18,396
Additions to the income statement	223	123	437	193	(31)	(1,248)	(303)
Additions to the statement of other comprehensive income	-	-	-	-	-	(2,987)	(2,987)
Amounts utilised	(53)	(42)	(1,520)	(184)	-	-	(1,799)
Unused amounts reversed to the income statement	-	-	(250)	-	-	-	(250)
At 31 December 2017	**405**	**128**	**1,677**	**193**	**191**	**10,463**	**13,057**

Contract loss provision

The contract loss provision relates to the foreseeable and unavoidable losses on contracts entered into before the date of the statement of financial position.

Contract penalty provision

The contract penalty provision relates to the liquidated damages on contracts entered into before the date of the statement of financial position.

Notes to the financial statements (continued)

(All amounts in £ thousands unless otherwise stated)

Warranty provision

The provision for product warranties relates to expected warranty claims on radial piston motors, engineering and product sales where the products supplied are still within their warranty period. The provision is calculated on the basis of the actual cost of rectifying past warranty failures and takes into account the time period before claims will be made. It is expected that the majority of this expenditure will be incurred in the next financial year and the balance will be incurred within three years of the date of the statement of financial position.

Holiday pay accrual

The accrual for holiday pay relates to holiday entitlement not taken at the date of the statement of financial position.

Deferred tax

The provision/(asset) for deferred tax consists of the following deferred tax liabilities/(assets):

	2017	2016
Deferred tax assets due within 12 months	**(189)**	(131)
Deferred tax liabilities due within 12 months	**380**	353
Total provision	**191**	**222**

	2017	2016
Deferred tax assets due after 12 months	**(1,779)**	(2,498)
Deferred tax liabilities due after 12 months	**-**	-
Total asset	**(1,779)**	**(2,498)**

Total deferred tax asset	**2017**	2016
Total asset	**(1,588)**	**(2,276)**

Notes to the financial statements (continued)

(All amounts in £ thousands unless otherwise stated)

Deferred tax liabilities	Property, plant and equipment	Inventories	Employee benefits	Provisions	Total
At 1 January 2016	434	(98)	(19)	(123)	194
Charged/(credited) to the income statement	(13)	(59)	(6)	106	**28**
At 31 December 2016	**421**	**(157)**	**(25)**	**(17)**	**222**
Charged/(credited) to the income statement	31	(11)	(62)	11	**(31)**
At 31 December 2017	**452**	**(168)**	**(87)**	**(6)**	**191**

Deferred tax assets	Relating to the pension deficit	Total
At 1 January 2016	(2,001)	(2,001)
Credited to the income statement	256	256
Charged directly to other comprehensive expense	(753)	(753)
At 31 December 2016	**(2,498)**	**(2,498)**
Credited to the income statement	211	**211**
Credited directly to other comprehensive income	508	**508**
At 31 December 2017	**(1,779)**	**(1,779)**

Notes to the financial statements (continued)

(All amounts in £ thousands unless otherwise stated)

14 Post-employment benefits

The company operates a number of pension schemes for its employees.

Defined benefit scheme

The company participates in a defined benefit scheme providing benefits based on final pensionable pay that runs for Bosch group companies called the Bosch UK Retirement Benefits Scheme (BUK RBS). The assets of the pension scheme are held separately from those of the company. The amounts in the financial statements, relating to this pension scheme, are based on a full actuarial valuation dated 31 December 2017. It was agreed by the companies participating in the scheme that the assets and liabilities would be allocated as follows:

Changes in scheme assets / liabilities	**Treatment**
Current service cost	Actual
Member contributions	Actual
Past benefit costs/curtailments	Actual
Interest cost	Apportionment based on beginning of year scheme liabilities and current service cost, member contributions and benefits paid over year
Employer and member contributions	Actual
Benefits paid	Actual
Expected return on assets	Apportionment based on beginning of year scheme assets and contributions net of benefits paid over the year
Actuarial gains/(losses)	Apportionment in line with expected return

The actuarial valuation of BUK RBS described above used the projected unit basis and has been updated at 31 December 2017 by a qualified independent actuary, AON Hewitt, using revised assumptions that are consistent with the requirements of IAS19 *Employee Benefits*. Under the definitions set out in IAS19, the BUK RBS is a multi-employer pension scheme. The deficit for the scheme as a whole at 31 December 2017 is £44,102 (2016: £54,337).

The information disclosed below is in respect of the whole of the plan for which the company is either the sponsoring employer or has been allocated a share of the cost under an agreed group policy throughout the periods shown.

Notes to the financial statements (continued)

(All amounts in £ thousands unless otherwise stated)

Actuarial assumptions

The following are the principal actuarial assumptions at the reporting date (expressed as weighted averages).

	2017	2016
	%	%
Expected rate of salary increases	**2.85**	2.90
Expected rate of increase of pensions in payment	**2.80**	2.82
Discount rate	**2.50**	2.70
Rate of inflation	**2.35**	2.40

Assumptions regarding future mortality are set, based on actuarial advice, in accordance with published statistics and experience in the UK. These assumptions translate into an average life expectancy in years for a pensioner retiring at age 65:

	2017	2016
	Years	Years
Longevity at age 65 for current pensioners:		
- Men	22.1	22.0
- Women	24.9	24.8
Longevity at age 65 for future pensioners:		
- Men	23.8	23.7
- Women	26.8	26.7

Reconciliation of scheme assets and liabilities:

	Assets	**Liabilities**	**Total**
At 1 January 2017	78,052	(92,750)	(14,698)
Benefits paid	(2,297)	2,297	-
Employer contributions	1,623	-	1,623
Interest income / (expense)	2,098	(2,473)	(375)
Remeasurement gains / (losses)	5,115	(2,128)	2,987
At 31 December 2017	84,591	(95,054)	(10,463)

Notes to the financial statements (continued)

(All amounts in £ thousands unless otherwise stated)

The sensitivity of the defined benefit obligation to changes in the weighted principal assumption is:

	Impact on defined benefit obligation		
	Change in assumption	**Increase in assumption**	**Decrease in assumption**
Discount rate	0.50%	Increase by 8.5%	Decrease by 9.5%
Salary growth rate	0.50%	Increase by 0.0%	Decrease by 0.0%
Pension growth rate	0.50%	Increase by 4.0%	Decrease by 3.6%
Life expectancy	Increase or decrease by 1 year	Increase by 3.9%	Decrease by 3.8%

The above sensitivities are based on a change in assumption, while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions might be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method (that is, present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

The methods and types of assumption used in preparing the sensitivity analysis did not change compared to the previous period.

Total cost recognised as an expense:

	2017	2016
Interest cost	**375**	345
Total	**375**	345

The fair value of the plan assets was:

	2017	2016
Equity instruments	**41,042**	33,932
Debt instruments	**38,612**	38,613
Cash and cash equivalents	**628**	-
Property	**612**	-
Insurance contracts	**3,696**	3,984
Other	**-**	1,523
Total	**84,590**	78,052

Notes to the financial statements (continued)

(All amounts in £ thousands unless otherwise stated)

The return on the plan assets was:

	2017	2016
Interest income	**2,098**	2,487
Remeasurements	**5,115**	9,275
Total return on plan assets	**7,213**	11,762

Defined contribution scheme

The company established a money purchase plan in April 1990. The plan's assets are held independently from the company and invested in managed funds operated by major financial institutions. Any employee can contribute to the scheme; the company will match the employee's contribution, subject to a limit, where the limit is dependent upon the length of time each employee has been a member of the scheme.

The amount recognised as an expense for the defined contribution scheme was:

	2017	2016
Current year contributions	**1,588**	1,555

No prepayments or accruals have been made in respect of this scheme (2016: £nil).

In accordance with legislation, the company has adopted the requirements of auto-enrolment under the defined contribution scheme.

Notes to the financial statements (continued)

(All amounts in £ thousands unless otherwise stated)

15 Called up share capital

Share capital

Ordinary shares of £1 each

Allotted and fully paid up	2017 No. (000's)	2016 No. (000's)
On issue at 1 January	**14,700**	14,700
On issue at 31 December – fully paid	**14,700**	14,700

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company.

Dividends

No dividends were recognised during the year. As at the date of the statement of financial position no dividends have been provided for.

After the date of the statement of financial position dividends of 41,837p per qualifying ordinary share (2016: zero) were proposed by the Directors. The dividends have not been provided for.

16 Contingent liabilities

The company is currently party to legal proceedings, which includes a claim for damages. Management's best estimate has not been disclosed on the grounds that by so doing would be seriously prejudicial to the company, but in any case, management believes it is not likely to result in a material adverse effect on the financial position of the company.

The company's banking arrangement is part of a cash pool netting arrangement with certain other UK subsidiaries of Robert Bosch GmbH, each being jointly and severally liable. No security is held over these assets.

The aggregate net surplus in hand under the terms of the agreement at 31 December 2017 amounted to £101,363 (2016: £78,736).

Notes to the financial statements (continued)

(All amounts in £ thousands unless otherwise stated)

17 Capital and other commitments

Capital commitments

At 31 December 2017, the company had the following capital commitments:

	2017	2016
Contracts for future capital expenditure not provided in the financial statements	**933**	330

Other commitments

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

	2017	2016
Land and buildings:		
Not later than one year	**380**	273
Later than one year and not later than five years	**1,482**	1,064
Later than five years	**1,213**	1,473
	3,075	2,810
Other:		
Not later than one year	**702**	969
Later than one year and not later than five years	**759**	1,208
Later than five years	-	-
	1,461	2,177
	4,536	4,987

During the year £1,455 was recognised as an expense in the Income statement in respect of operating leases (2016: £1,729).

Notes to the financial statements (continued)

(All amounts in £ thousands unless otherwise stated)

19 Related party transactions

Under FRS 101.8 j) and k) the company is exempt from Related Party Disclosures as required in paragraph 17 of IAS24 and those related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

20 Controlling parties

The immediate parent undertaking is Robert Bosch UK Holdings Limited.

The ultimate parent undertaking and the smallest and largest group to consolidate these financial statements is Robert Bosch GmbH, a company incorporated in Germany. Copies of Robert Bosch GmbH consolidated financial statements can be obtained from Robert Bosch GmbH, Robert Bosch Platz 1, Gerlingen-Schillerhöhe, D-70049 Stuttgart, Germany.

The ultimate controlling party is Robert Bosch GmbH.

21 Events after the end of the reporting period

Subsequent to the date of the statement of financial position, there were no events that are not disclosed in these financial statements.