Kärcher (UK) Limited

Annual Report and Financial Statements

Year Ended

31 December 2021

Company Number 01350233

Kärcher (UK) Limited

Contents

Company Information

Directors	H O Jenner S C Keeping M R Venner C May S Patzke
Company secretary	M R Venner
Registered number	01350233
Registered office	Kärcher House Brookhill Way Banbury Oxfordshire OX16 3ED
Independent auditor	BDO LLP Two Snowhill Birmingham B4 6GA

Strategic report
For the Year Ended 31 December 2021

The Directors present their Strategic Report together with the consolidated audited financial statements for the year ended 31 December 2021.

Review of the business

As set out on page 15 the Group turnover increased in the year to £165,367,000 (2020 - £143,621,000) or 15.1%. The gross profit also showed strong growth on value and also in product gross margin percentage to 28.2% (2020 - 24.6%). The main factor in gross profit margin movement comes from our growth in our consumer product sales and in particular, those sold via on-line channels. Sales via our subsidiary Clean Sweep Hire (excluding intercompany sales) has shown an increase of 38.0% (2020 - decrease of 0.1%). Another factor in this growth is the change of emphasis for consumer spending patterns which shifted more from leisure and towards home improvements during Covid 19 lockdowns.

Professional product sales have been impacted by the pandemic lockdowns mainly due the temporary closure of some of our key customers. However we have seen significant improvement in terms of sales growth as our customers re-opened their businesses during the year.

Group overheads are regularly reviewed by the management team to ensure where possible these costs are in line with sales volumes, profitability expectations and strategic focus of the business.

The significant spend for the Group in the year was on warehousing and distribution, advertising and marketing and personnel and employment costs. The average consolidated headcount decreased by 10 to 273. The Group generated an operating profit in 2021 of £3,372,000 (2020 - £1,998,000) and a profit on ordinary activities after interest and taxation of £2,701,000 (2020 - £1,066,000).

Year end product stock values decreased year on year by 11.5% (2020 - 55.8% increase) due to the uplift in sales and global supply chain and material availability issues.

External trade receivables remain well within the Group's debtor day expectations and key performance indicators for the Group. The year end value of £11,480,000 (2020 - £13,601,000) reflects the sales profile in the last quarter and associated cash collections in both companies. Company bad debts in the year at 0.05% (2020 - 0.16%) remains low but remains a key focus of the sales and cash management team.

Consolidated net assets increased by £3,600,000 (2020 - £942,000) year on year mainly due to the periods performance and the associated improvement in liquidity.

We aim to protect our core business by using forward contracts to help build more certainty into our future cash flows. The movement in the derivatives created a loss of £4,110,000 (2020 - £176,000).

As a majority of our products sold in the UK are imported from the Euro zone and the continued pressure on Sterling versus the Euro, the management of currency and the associated product cost base requires significant management focus and necessary price adjustment.

For many UK businesses, 2021 has been an exceptionally challenging year on two main fronts, both the continuing impact COVID 19 pandemic and the events after the United Kingdom's exit from the European Union.

With regard to the pandemic, the change in patterns of available consumer spending towards home improvement and hygiene (and particularly to those products available on line) has largely been positive for our consumer product sales, especially those sold via retail channels with a strong online presence.

The business has seen an increase in demand for its cleaning solutions in the year, this, combined with global supply chain challenges and raw material and labour availability, has been a significant focus for the management team.

Review of the business (continued)

Our strategy on employing and retaining good people, our marketing plans and the continued innovation of our product range, along with close collaboration with our customers, will continue to be the focus for the business in 2022. These factors, plus the measures that have been introduced to protect the principles and assets of Kärcher, mean that we are in a good position to continue added value projects and continue to improve the financial and environmental sustainability of the business.

Principal risks and uncertainties

Our environmental sustainability and our impact on the planet, as well as the macroeconomic effect on the UK economy due to inflationary cost increases and resource availability, are significant focus areas for the business. Our ability to plan and react to these challenges is reviewed on a weekly basis by the Board of Directors.

The business anticipates that demand for our goods and services are likely to continue to grow and this increases the pressures on stock and associated raw material availability. However, in conjunction with our Group parent company, we constantly review the effectiveness of our end to end supply chain in matching the demand for our products. This is to ensure our customers' demands are met with best in class service and that our end to end supply chain supports our customers.

The fluctuation of the exchange rate of Sterling against the Euro continues to be a key risk to the performance of the Group. With this in mind, deployment of risk mitigating policies such as foreign currency hedging, cash flow planning, strategic plans to improve working capital and profit generation have already proved a valuable barrier to the financial impacts of the economic and market changes. We are working closely with our partners in Group Treasury, banking and professional advisors to ensure the Group is in the best possible position with regard to currency and other financial risks.

The global group as a whole has a strong and ever improving customer offering and culture, both of which are the backbone of our long terms plans.

Key performance indicators

The Group produce regular management information for review and discussion by the Directors, business division managers and employees. Management produces key performance indicators specifically on a business unit, value stream and sales channel level. The financial key performance indicators are sales performance, gross margin and product contributions as well as capital and overhead spend. These are evaluated against previous years, forecasts and budgets and then used to adjust strategic planning to ensure the assets and returns of the business are protected.

Included in management information submissions are non-financial measures including the scopes of Co2 emissions, energy consumption, headcount per cost centre, employee productivity, cost to serve our customers, product return volumes, health and safety data, customer service levels and orders delivered 'on time & in full' through our outsource partner and in house warehousing and distribution.

Working capital measures are reviewed and set for the coming periods by the management and they include stock range, debtor days, creditor days, currency hedging effectiveness and liquidity statistics.

A majority of the financial performance indicators are relevantly assessed on a company and sales channel level, therefore not presented in this report however a key indicator for the measurement of the business is our return on company assets. This is a ratio of our earnings over the 13 month average of our net assets.

At present there are no significant threats to any operating costs or outstanding debts of the business, with all business units and company key indicators within tolerance levels of management expectations.

Statement by the Directors in performance of their statutory duties in accordance with s172(1) Companies Act 2006

Stakeholder Engagement

The Board of Directors consider that the decisions they have made during the financial year and the way they have acted have promoted the success of the Group for the benefit of its members as a whole (having regard to the stakeholders and matters set out in s172(1)(a f) of the Act). The Board meets on a weekly & monthly basis to review the management reports for the Group and the agenda typically includes management discussion relating to current trading and financial performance from the senior management, and a review of the strategic plan and more detailed discussions of areas of particular importance. The Board considers the Company's key stakeholders to include employees, shareholders, customers, suppliers and the local community.

Principal decisions taken by the board during the period

The Board also meet on a quarterly basis to evaluate longer term strategic direction and adjudicate levels of investment. At all these meetings the financial benefit and shareholder return is one of the key decision criteria, as well as the long term effect on the Group's sustainability plans, the environment, value proposition for our employees and value, satisfaction and service for our customers. Our approach to all our stakeholders is one of jointly beneficial partnership where sustainable returns, valued added and long term relationships are paramount. During the 2021 financial year, the Board considered a wide range of matters affecting both the short term and long term future of the business. These matters varied throughout the year, however, consistent themes underpinned the key decisions made by the Board i.e.

- Improving business sustainability, financial and environmental
- Inflationary cost pressures and resource availability
- New market penetration;
- Product portfolio;
- Customer relationship management; and
- The engagement, recognition and development of our people.

We set out below how we engaged with all key stakeholders during the year to communicate strategy and equally to hear and understand their views.

Customers and suppliers

Our engagement with customers and suppliers continues to evolve and improve as the Board recognises that fostering these relationships along with maintaining the Group's reputation for high standards of business partnerships is essential for the long term success.

We manage our customers over three main channels Retail, Dealer orientated customers and Direct originated customers with National Account Managers, Area Sales Managers and Key Account Managers across UK & Northern Ireland. These customers and sales teams are supported by an external consumer call centre (based in the UK) and Internal Customer Care and Customer Support teams at the Banbury head office. All interactions with customers and end users are held on company customer relationship management systems and we provide all customers an opportunity to provide feedback on the service and support provided by the Company. The focus is 100% customer satisfaction and continual improvement in our service national financial statement scores.

All key suppliers have regular business reviews to assess and review performance for continuous improvements to the management of our key services. Our purchasing professionals regularly review our suppliers to maintain competitive sustainability and drive improvements in their environmental credentials & carbon footprint.

Statement by the Directors in performance of their statutory duties in accordance with s172(1) Companies Act 2006 (continued)

Customers and suppliers (continued)

There has been continuing development to improve the Group's supply chain, with the strengthening of warehouse and distribution partners and further investment in the supply chain management & training to focus on improving planning and efficiency.

Employees

Our employees are fundamental to the Group's success and future strategy of the business. The Board aims to be a responsible employer and ensures that pay and benefits are fair, consistent and competitive. The health, safety and well-being of the Group's employees are one of the Board's primary considerations.

The challenges of working from home and associated welfare concerns continue to be a significant focus this year, we have initiated greater standards to our on line meetings, catch ups and well being checks by our management staff and well-being ambassadors.

The Board has continues to expand our Employee Value Proposition, whereby we engage and nurture new starters and existing staff through a learning and development structure during their time with the Group. This is done by identifying career paths and encourages employees to maximise their potential through internal and external training, coaching and mentoring, building business acumen and regular performance appraisals.

Trading updates

The Board considers trading performance from across the Group's operations using regularly updated performance dashboards, and they discuss operational issues such as stock availability, production performance, sales and margin on a weekly and, in more detail, on a monthly basis.

Strategic Plan

The Board discussed the foundations of the strategic plan.

In order to formulate the plan, the Board has assessed recent Group trading performance, market trends, developments with regards to environmental sustainability, marketplace and competitive position as well as efficiency of the manufacturing footprint. Based on the above, the Board re confirmed the Company's mission and vision and agreed a directional plan for the next five years; the plan encompasses identification of the desired growth opportunities, development of the strategy to create capacity for this growth, and necessary enhancement of the Group's manufacturing and organisational capability.

Financial updates

The Board discussed performance against budget with particular focus on understrength parts of the business, reviewed the monthly rolling forecast, discussed funding requirements, reviewed the liquidity position and considered payment of shareholder dividends. Additionally, scenario planning and impact assessments for the principal risks and uncertainties highlighted above are reviewed and the plan is adjusted accordingly.

Statement by the Directors in performance of their statutory duties in accordance with s172(1) Companies Act 2006 (continued)

Sustainability

The Board is acutely aware of its responsibility to safeguard the environment ensuring we have a strong sustainability strategy. Each year we focus on ensuring our products include more recycled plastic and reduction in emissions from our supply chain, sales operations & production plants.. One of our specific strategic aims is to improve our environmental sustainability via the creation of an environmental plan & outlook to 2030, with environmental targets set across 3 initiatives.

Going concern

Kärcher UK Limited Group has in place a letter of continued intercompany working capital facility from its sole shareholder Kärcher Beteiligungs GmbH with Alfred Kärcher SE & Co. KG (as ultimate parent company) based in Germany to support the going concern of the Group for a period up to 12 months from the date of approval of the financial statements.

The UK group operate with minimal cash levels in territory, with cash repatriated to the ultimate parent company where possible, so any reduction in demand for the UK group and parent company's products creates an immediate need for financial support to meet the UK group and parent company's operating costs.

The Directors consider that the financial support from the ultimate parent company will continue, and current financial years strong financial performance has enhanced the local working capital and liquidity position. As such, the financial statements have been prepared on a going concern basis.

The financial statements do not include any adjustments that would be necessary if the UK group or parent company is unable to continue as a going concern.

Future risks

The financial results as presented have partly mitigated some of our future concerns outlined in our previous report, specifically around the impact of the pandemic and Brexit readiness. However there are still many unknowns around these issues and new developments in 2022 but the business continues to plan, prepare and react to market and macro economic changes as a result of these issues.

This report was approved by the board and signed on its behalf by:

M R Venner
Secretary

Date: 5 December 2022

The Directors present their report together with the audited consolidated financial statements for the year ended 31 December 2021.

Results and dividends

The Consolidated Statement of Comprehensive Income is set out on page 15 and shows the profit for the year.

Management of financial risks

The Group's operations and administration are open to currency, liquidity, credit, interest rate and returned product risks.

The Group has exposure to the Euro currency, this is managed by forward hedged exchange contracts and reviewed regularly with our Treasury department at head office to ensure we have no large exposures or risk to company margin and the cost base.

The Group's policy in respect of credit risk is to require appropriate credit checks on potential customers before sales are made and monitor all customers' credit worthiness on a regular basis. The credit limit management tools within our software applications and dunning process are fully integrated to collect monies due to the Company in a timely and orderly manner. Credit insurance on significant debt is in place to further strengthen the protection of our receivable assets.

The Group's policy in respect of interest rate risk and liquidity risk is to maintain medium term and short term debt finance from the parent company and readily accessible bank overdraft accounts to ensure the Company has sufficient funds for operations. The cash deposits are held in a mixture of short term deposits with the parent company and current accounts.

Returned products are reconditioned and sold via our outlet website. The Company returns rates are regularly reviewed for each product range and appropriate provisions are made.

Employment of disabled persons

Full and fair consideration is given to the employment of applicants who are disabled persons, taking account their disabilities and abilities. Employees who become temporarily or permanently disabled are retained in employment where possible with a fair regard to their training needs, role and career development. All employees are fairly and equally provided opportunities for promotion.

Employee involvement

The Group creates platforms and encourages regular consultation with employees and management throughout the business. Employees are notified of the business performance and future developments through monthly operating updates, manager updates and the Company's annual conference. All employees have performance reviews, learning & development plans and self-assessment appraisal meetings at least twice a year. We have an all-encompassing software package to help manage these functions and align ourselves with the global human resource management processes.

Annually we perform a company wide employee survey in conjunction with our Culture Excellence programme. The results of which are used to evaluate where we have made progress since the last survey and where opportunities for improvements exist.

Research and development

The Group had no material investment in this area in the year.

Directors

The Directors who served during the year and up to the date of signing this report were:

H O Jenner
S C Keeping
M R Venner
C May
S Patzke

Streamlined energy and carbon reporting (SECR)

Environmental friendliness and climate protection are a fundamental part of our actions. For years now, we have been continuously setting ourselves new targets to systematically make our company more efficient and resource conserving and to fulfil our role as a social stakeholder. With our targets for 2025 and 2030, we are now taking the next step towards the future.

Our measures aim to achieve climate neutral production, recycling of raw materials and a reduction in plastic packaging. Sustainability is deeply embedded in the global supply chain. When it comes to social and societal issues, we concentrate on preserving values.

With our sustainability targets, we are also playing our part in achieving the 17 Sustainable Development Goals of the United Nations (UN).

For us as a company, the SDGs offer a good framework on which to base our sustainability targets. In this way, with our core business we can play a role in overcoming globally relevant challenges. We have brought together our targets in three initiatives: "Zero Emissions", "Reduce, Reuse, Recycle" and "Social Hero".

In collaboration with our parent company Kärcher UK is committed to achieving net zero carbon emissions by 2030. The Company currently track progress through its ESOS (Energy Savings Opportunity Statement) report and ensuring the 10 initiatives created to reduce our carbon footprint are reviewed by the management team on a regular basis.

The Company is currently following the Groups Sustainability Goals 2025 and achieved the ISO 14001 Environmental Management Standard in February 2020.

Managing our Emissions

Since 2021, Kärcher factories worldwide have been climate-neutral.

We use green energy and compensate for emissions that we cannot avoid by funding climate protection projects. Many of our factories are already equipped with LED lighting and photovoltaic systems.

In the UK, we succeeded in installing just under 1,000 solar panels at our head office building and therefore generating over 44% of the Company's annual power consumption by means of the solar system. At our headquarters in Winnenden, we also use a photovoltaic system and close the material cycle by repurposing single use pallets in a heating system for the buildings.

We are reducing business travel and the greenhouse gas emissions resulting from business travel by train, car and plane. We compensate for emissions that we cannot avoid. Formats such as digital conferences, which are becoming increasingly established in our company, have a role to play here. We are further increasing the number of electric & hybrid vehicles in our fleet.

By 2025 Kärcher will reduce its real scope 1 and scope 2 emissions by 21% compared with the base year of 2020.

Streamlined energy and carbon reporting (SECR) (continued)

Managing our Emissions (continued)

By 2030, this will be reduced by a further 21% (total: 42%). Kärcher will establish a management system for its scope 3 emissions and make the carbon footprint of its products transparent

Reduce, Reuse, Recycle

We will optimise the sustainability of all product packaging. We are improving the stability of our products and product surfaces to achieve plastic free packaging.

By 2025, we will optimise the sustainability of all product packaging.
By 2025, select Consumer and Professional machines will achieve a recycled plastic content of up to 50%.
From 2020, we will support the reduction and reuse of ocean plastic.
By 2025, we aim to implement pilot production without plastic waste.
By 2025, sustainability will be an integral part of new business models

Sustainability will be an integral part of new business models. We review business models for Kärcher such as sharing, services and recycling. Kärcher Used Equipment & our Outlet store specialises in the preparation and Europe wide sale & hire of used machines and thereby ensures that machines remain in use for longer, instead of being disposed of.

Materials and Packaging

The dramatic rise of online shopping poses new challenges when it comes to packaging. We are constantly working on alternative packaging materials and continue to pursue this objective in the 2025 strategy.

2016 marked the first time we surpassed our target of quadrupling the content of bioplastic and recycled plastic by 2020. Since 2018, we have continuously achieved this target.

Reporting boundary

The reporting boundary is based on the ESOS regulations for the UK with 2021 numbers below for the group.

More on the Kärcher sustainability facts & figures, 2025 Goals & sustainability in our products can be seen in the link below;

https://www.kaercher.com/int/inside-kaercher/sustainability.html

Energy Data Methodology

In accordance with the ESOS Scheme requirements, a BS EN 16247 series methodology has been used to conduct the energy audits for the Company, which was agreed at the outset.

The energy audit has been conducted for the Company's requirement to comply with the ESOS Regulations 2014.

The total energy consumption of the Company is measured as part of the ESOS audit. This is measured in either energy units (such as kWh) or in expenditure (£).

Streamlined energy and carbon reporting (SECR) (continued)

Energy Data Methodology (continued)

In measuring the total energy consumption of the Company, all energy used in Buildings, Industrial Processes and Transport is considered. In determining the Participant's total energy consumption, the following has been taken into account:

- The definition of energy consumption in the scheme;
- The supply rules, including the unconsumed supply; and
- The exclusion of use outside of the UK (with the exception of international travel, where special rules apply).

When Phase 2 of our ESOS audit is compared with Phase 1 there is a considerably improved performance both in terms of energy consumption per employee and per floor area.

Further local actions to Reduce Company Emissions

- Upgrade Lighting to Smart LED
- Encourage Use of Public Transport and WTWS (Write to Work Scheme).
- Introduce an Energy Management Plan and Policy
- Develop commercial use of EV vehicles within our own transport & that of our supply chain
- Replace Diesel usage in our machines with fossil fuels

Corporate Social Responsibility

Clearly defined topics ensure that all of our social commitment activities around the world share a common purpose. In all three areas – donations and sponsorship, long term cooperation and employee commitment – we take our role as a social stakeholder seriously and are therefore dedicated to preserving values. These may be cultural values, as is the case with our cultural sponsorship, or family values, like our cooperation with local communities on cleaning projects.

Directors' responsibilities statement

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

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

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

- select suitable accounting policies for the Group's financial statements and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group 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 the Group and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to auditor

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

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

Auditor

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

This report was approved by the board and signed on its behalf by:

H Oßenner
Director

Date: **5 December 2022**

S C Keeping
Director

Date: **5 December 2022**

Independent Auditor's Report to the Members of Kärcher (UK) Limited

Opinion on the financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2021 and of the Group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Kärcher (UK) Limited (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2021 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Parent Company Balance Sheet, the Consolidated Statement of Changes in Equity, the Parent Company Statement of Changes in Equity, the Consolidated Statement of Cash Flows, the Consolidated Analysis of Net Debt and notes to the financial statements, 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 the Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group and the Parent 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.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and Parent Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. 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 course of 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 this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other Companies Act 2006 reporting

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Group 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 Group Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

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

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 by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company's 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, 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 Group's and the Parent 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 Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

To identify and assess the risk of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- Obtaining an understanding of the legal and regulatory frameworks applicable to the Group and Parent Company based on our understanding and sector experience and discussions with management. The most significant considerations for the Group are the Companies Act 2006, corporate taxes and VAT and employment tax legislation.
- Enquiring of management and obtaining and reviewing relevant supporting documentation including correspondence with the relevant authorities, concerning the Group and Parent Company's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they had knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations.
- We corroborated our enquiries of management through our review of board minutes.
- Evaluating management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls). We determined that the principal risks were related to posting inappropriate journal entries to manipulate financial results and management bias in accounting estimates.

Based on our understanding of the environment and assessment of the incentive and opportunity for fraud or material misstatement arising in respect of non-compliance with laws and regulations, we carried out the following procedures:

- We tested the appropriateness of accounting journals, including those relating to adjustments made in the preparation of the financial statements. We obtained access to the nominal ledger system to the complete population of all journals in the year to identify and substantively test any which we considered were indicative of management override.
- We reviewed the Group and Parent Company's accounting policies for non-compliance with relevant standards. Our work also included considering significant accounting estimates for evidence of misstatement or possible bias and testing any significant transactions that appeared to be outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Auditor's responsibilities for the audit of the financial statements (continued)

Extent to which the audit was capable of detecting irregularities, including fraud (continued)

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: 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 Parent 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 Parent 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 Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

DocuSigned by:
Jon Gilpin
397C313CDCBF48A...

Jonathan Gilpin (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
Birmingham
United Kingdom

Date: 06 December 2022

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Kärcher (UK) Limited

Consolidated Statement of Comprehensive Income
For the Year Ended 31 December 2021

	Note	2021 £000	2020 £000
Turnover	4	**165,367**	143,621
Cost of sales		**(118,777)**	(108,285)
Gross profit		**46,590**	35,336
Distribution costs		**(27,817)**	(25,246)
Administrative expenses		**(15,401)**	(8,092)
Operating profit	5	**3,372**	1,998
Interest receivable and similar income		**10**	7
Interest payable and similar expenses	9	**(207)**	(342)
Profit before taxation		**3,175**	1,663
Tax on profit	10	**(474)**	(597)
Profit for the financial year		**2,701**	1,066
Other comprehensive income/(loss) for the year			
Movement in cash flow hedge		**1,109**	(176)
Taxation in respect of other comprehensive loss		**(210)**	52
Other comprehensive income/(loss) for the year		**899**	(124)
Total comprehensive income for the year		**3,600**	942

All amounts relate to ordinary activities.

The notes on pages 23 to 46 form part of these financial statements.

Kärcher (UK) Limited
Registered number:01350233

Consolidated Balance Sheet
As at 31 December 2021

	Note	2021 £000	2021 £000	2020 £000	2020 £000
Fixed assets					
Intangible assets	11		**636**		821
Tangible assets	12		**10,574**		11,263
			11,210		12,084
Current assets					
Stocks	14	**12,494**		14,117	
Debtors: amounts falling due within one year	15	**29,333**		27,079	
Cash at bank and in hand	16	**1,525**		188	
		43,352		41,384	
Creditors: amounts falling due within one year	17	**(30,832)**		(34,328)	
Net current assets			**12,520**		7,056
Total assets less current liabilities			**23,730**		19,140
Creditors: amounts falling due after more than one year	18		**(75)**		(571)
Provisions for liabilities					
Deferred taxation	21	**-**		(214)	
Other provisions	22	**(4,450)**		(2,750)	
			(4,450)		(2,964)
Net assets			**19,205**		15,605
Capital and reserves					
Called up share capital	23		**2,320**		2,320
Other reserves	24		**-**		(899)
Profit and loss account	24		**16,885**		14,184
			19,205		15,605

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

H O Jenner
Director

Date: **5 December 2022**

S C Keeping
Director

Date: **5 December 2022**

The notes on pages 23 to 46 form part of these financial statements.

Kärcher (UK) Limited
Registered number:01350233

Company Balance Sheet
As at 31 December 2021

	Note	2021 £000	2021 £000	2020 £000	2020 £000
Fixed assets					
Intangible assets	11		**79**		115
Tangible assets	12		**6,982**		7,801
Investments	13		**2,652**		2,652
			9,713		10,568
Current assets					
Stocks	14	**12,417**		14,042	
Debtors: amounts falling due after more than one year	15	**505**		275	
Debtors: amounts falling due within one year	15	**29,514**		26,683	
Cash at bank and in hand	16	**1,234**		9	
		43,670		41,009	
Creditors: amounts falling due within one year	17	**(29,380)**		(32,414)	
Net current assets			**14,290**		8,595
Total assets less current liabilities			**24,003**		19,163
Provisions for liabilities					
Deferred taxation	21	**-**		(227)	
Other provisions	22	**(4,450)**		(2,750)	
			(4,450)		(2,977)
Net assets			**19,553**		16,186
Capital and reserves					
Called up share capital	23		**2,320**		2,320
Other reserves	24		**-**		(899)
Profit and loss account	24		**17,233**		14,765
			19,553		16,186

Company Balance Sheet (continued)
As at 31 December 2021

The Group profit for the year includes a profit after tax generated by the Company of £2,468,000 (2020 - £1,007,000).

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

H O Jenner
Director

Date: 5 December 2022

S C Keeping
Director

Date: 5 December 2022

The notes on pages 23 to 46 form part of these financial statements.

Kärcher (UK) Limited

Consolidated Statement of Changes in Equity
For the Year Ended 31 December 2021

	Called up share capital	Other reserves	Profit and loss account	Total equity
	£000	£000	£000	£000
At 1 January 2021	2,320	(899)	14,184	15,605
Comprehensive income for the year				
Profit for the year	-	-	2,701	2,701
Taxation in respect of items of other comprehensive income	-	(210)	-	(210)
Net movement on cash flow hedges	-	1,109	-	1,109
Other comprehensive income for the year	-	899	-	899
Total comprehensive income for the year	-	899	2,701	3,600
At 31 December 2021	2,320	-	16,885	19,205

Consolidated Statement of Changes in Equity
For the Year Ended 31 December 2020

	Called up share capital	Other reserves	Profit and loss account	Total equity
	£000	£000	£000	£000
At 1 January 2020	2,320	(775)	13,118	14,663
Comprehensive income for the year				
Profit for the year	-	-	1,066	1,066
Taxation in respect of items of other comprehensive income	-	52	-	52
Net movement on cash flow hedges	-	(176)	-	(176)
Other comprehensive loss for the year	-	(124)	-	(124)
Total comprehensive income for the year	-	(124)	1,066	942
At 31 December 2020	2,320	(899)	14,184	15,605

The notes on pages 23 to 46 form part of these financial statements.

Kärcher (UK) Limited

Company Statement of Changes in Equity
For the Year Ended 31 December 2021

	Called up share capital	Other reserves	Profit and loss account	Total equity
	£000	£000	£000	£000
At 1 January 2021	2,320	(899)	14,765	16,186
Comprehensive income for the year				
Profit for the year	-	-	2,468	2,468
Taxation in respect of items of other comprehensive income	-	(210)	-	(210)
Net movement on cash flow hedges	-	1,109	-	1,109
Other comprehensive loss for the year	-	899	-	899
Total comprehensive income for the year	-	899	2,468	3,367
At 31 December 2021	2,320	-	17,233	19,553

Company Statement of Changes in Equity
For the Year Ended 31 December 2020

	Called up share capital	Other reserves	Profit and loss account	Total equity
	£000	£000	£000	£000
At 1 January 2020	2,320	(775)	13,758	15,303
Comprehensive income for the year				
Profit for the year	-	-	1,007	1,007
Taxation in respect of items of other comprehensive income	-	52	-	52
Net movement on cash flow hedges	-	(176)	-	(176)
Other comprehensive loss for the year	-	(124)	-	(124)
Total comprehensive income for the year	-	(124)	1,007	883
At 31 December 2020	2,320	(899)	14,765	16,186

The notes on pages 23 to 46 form part of these financial statements.

Kärcher (UK) Limited

Consolidated Statement of Cash Flows
For the Year Ended 31 December 2021

	2021 £000	2020 £000
Cash flows from operating activities		
Profit for the financial year	**2,701**	1,066
Adjustments for:		
Amortisation of intangible assets	**185**	294
Depreciation of tangible assets	**1,801**	2,088
Profit on disposal of tangible assets	**(9)**	(9)
Interest paid	**207**	342
Interest received	**(10)**	(7)
Taxation charge	**474**	597
Decrease/(increase) in stocks	**1,623**	(5,055)
Decrease/(increase) in debtors including group balances	**(1,724)**	(3,273)
(Decrease)/increase in creditors including group balances	**(233)**	13,599
Increase in provisions	**1,700**	1,560
Taxation paid	**(1,477)**	(435)
Net cash generated from operating activities	**5,238**	10,767
Cash flows from investing activities		
Purchase of tangible fixed assets	**(1,120)**	(1,045)
Sale of tangible fixed assets	**17**	9
Interest received	**10**	7
Net cash used in investing activities	**(1,093)**	(1,029)

Kärcher (UK) Limited

Consolidated Statement of Cash Flows (continued)
For the Year Ended 31 December 2021

	2021 £000	2020 £000
Cash flows from financing activities		
Repayment of finance leases	**(1,152)**	(1,019)
Repayment of intercompany loan	**(1,449)**	(8,261)
Interest paid	**(207)**	(342)
Net cash used in financing activities	**(2,808)**	(9,622)
Net increase in cash and cash equivalents	**1,337**	116
Cash and cash equivalents at beginning of year	**188**	72
Cash and cash equivalents at the end of year	**1,525**	188
Cash and cash equivalents at the end of year comprise:		
Cash at bank and in hand	**1,525**	188

Consolidated Analysis of Net Debt
For the Year Ended 31 December 2021

	At 1 January 2021 £000	Cash flows £000	At 31 December 2021 £000
Cash at bank and in hand	188	1,337	1,525
Debt due after 1 year	(571)	571	-
Debt due within 1 year	(5,926)	2,030	(3,896)
	(6,309)	3,938	(2,371)

The notes on pages 23 to 46 form part of these financial statements.

1. General information

The Group's principal activities include the sale, hire and repair of cleaning equipment. The registered office of the Parent Company (Kärcher (UK) Limited) is Kärcher House, Brookhill Way, Banbury, Oxfordshire, England OX16 3ED. The Company is incorporated in England and Wales under the Companies Act 2006.

2. Accounting policies

2.1 Basis of preparation of financial statements

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

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

Parent company disclosure exemptions

In preparing the separate financial statements of the Parent Company, advantage has been taken of the following disclosure exemptions available in FRS 102:

- Only one reconciliation of the number of shares outstanding at the beginning and end of the period has been presented as the reconciliations for the Group and the Parent Company would be identical;
- No cash flow statement has been presented for the Parent Company;
- Disclosures in respect of the Parent Company's financial instruments and share-based payment arrangements have not been presented as equivalent disclosures have been provided in respect of the Group as a whole; and
- No disclosure has been given for the aggregate remuneration of the key management personnel of the Parent Company as their remuneration is included in the totals for the Group as a whole.

The following principal accounting policies have been consistently applied:

2.2 Basis of consolidation

The consolidated financial statements present the results of Kärcher (UK) Limited and its subsidiaries ("the Group") as if they formed a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full.

The consolidated financial statements incorporate the results of business combinations using the purchase method. In the Balance Sheet, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the Consolidated Statement of Comprehensive Income from the date on which control is obtained.

2. Accounting policies (continued)

2.3 Going concern

Kärcher UK Limited Group has in place a letter of continued intercompany working capital facility from its sole shareholder Kärcher Beteiligungs GmbH with Alfred Kärcher SE & Co. KG (as ultimate parent company) based in Germany to support the going concern of the Group for a period up to 12 months from the date of approval of the financial statements.

The UK group operate with minimal cash levels in territory, with cash repatriated to the ultimate parent company where possible, so any reduction in demand for the UK group and parent company's products creates an immediate need for financial support to meet the UK group and parent company's operating costs.

The Directors consider that the financial support from the ultimate parent company will continue, and current financial years strong financial performance has enhanced the local working capital and liquidity position. As such, the financial statements have been prepared on a going concern basis.

The financial statements do not include any adjustments that would be necessary if the UK group or parent company is unable to continue as a going concern.

2.4 Foreign currency translation

Functional and presentation currency

The Company's functional and presentational currency is GBP.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Consolidated Statement of Comprehensive Income except when deferred in other comprehensive income as qualifying cash flow hedges.

2. Accounting policies (continued)

2.5 Turnover

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

Sale of goods

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

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

Rendering of services and equipment hire

Turnover from a contract to provide services and equipment hire is recognised in the period in which the services are provided in accordance with the stage of completion of the contract when all of the following conditions are satisfied:

- the amount of turnover can be measured reliably;
- it is probable that the Group will receive the consideration due under the contract;
- the stage of completion of the contract at the end of the reporting period can be measured reliably; and
- the costs incurred and the costs to complete the contract can be measured reliably.

2.6 Operating leases: the Group as lessee

Rentals paid under operating leases are charged to the Consolidated Statement of Comprehensive Income on a straight-line basis over the lease term.

2.7 Assets held for rental

Equipment leased to customers under operating leases is capitalised within tangible fixed assets and is depreciated in accordance with the accounting policy above. Income is accounted for on a straight line basis.

2.8 Interest income

Interest income is recognised in the Consolidated Statement of Comprehensive Income using the effective interest method.

2.9 Finance costs

Finance costs are charged to the Consolidated Statement of Comprehensive Income over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount.

2. Accounting policies (continued)

2.10 Pensions

Defined contribution pension plan

The Group operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. Once the contributions have been paid the Group has no further payment obligations.

The contributions are recognised as an expense in the Consolidated Statement of Comprehensive Income when they fall due. Amounts not paid are shown in accruals as a liability in the Balance Sheet. The assets of the plan are held separately from the Group in independently administered funds.

2.11 Current and deferred taxation

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

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the Balance Sheet in the countries where the Company and the Group operate and generate income.

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

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

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

2.12 Intangible assets

Goodwill

Goodwill represents the excess of the cost of a business combination over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary or business at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is carried at cost less accumulated amortisation and accumulated impairment losses. Goodwill amortisation is calculated by applying the straight line method to its estimated useful life. Goodwill recognised following transition to FRS 102 is being amortised to 'administrative expenses' over 10 years.

2. Accounting policies (continued)

2.12 Intangible assets (continued)

Goodwill (continued)

Estimates of the useful economic life of goodwill are based on a variety of factors such as the expected use of the acquired business, the expected useful life of the cash generating units to which the goodwill is attributed, any legal, regulatory or contractual provisions that can limit useful life and assumptions that market participants would consider in respect of similar businesses.

Other intangibles

Externally acquired intangible assets are initially recognised at cost and subsequently amortised on a straight-line basis over their useful economic lives.

Intangible assets are recognised on business combinations if they are separable from the acquired entity or give rise to other contractual/legal rights. The amounts ascribed to such intangible assets are arrived at by using appropriate valuation techniques.

Brands are amortised over their useful economic lives of 5 years. The valuation method uses estimated discounted cash flows to determine the cost of brands acquired.

Customer lists are amortised over their useful economic lives of 5 years. The valuation method takes account of the historic customer relationship and uses discounted cash flows to determine the cost of customer relationships acquired.

On disposal, the difference between the net disposal proceeds and the carrying amount of the intangible asset is recognised in the Consolidated Statement of Comprehensive Income.

2.13 Tangible fixed assets

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

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

Depreciation is provided on the following basis:

Freehold property	- 10% straight line
Leasehold property	- Over the term of the lease
Plant and machinery	- 25% to 33.33% straight line
Equipment for hire	- 20% straight line
Other fixed assets	- 10% to 33.33% straight line

2.14 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

2. Accounting policies (continued)

2.15 Stocks

Stocks are valued at the lower of cost and net realisable value. Cost is based on the cost of purchase, net of discounts, together with all associated costs attributable to the present condition and location of the stock. Net realisable value is based on estimated selling price less additional costs to completion and disposal.

2.16 Debtors

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

2.17 Cash and cash equivalents

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

In the Consolidated Statement of Cash Flows, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Group's cash management.

2.18 Creditors

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

2.19 Hedge accounting

Kärcher (UK) Limited has entered into forward foreign currency contracts to manage its exposure to foreign exchange rate risk in relation to forecast purchases. These derivatives are measured at fair value at each reporting date. To the extent the hedge is effective; movements in fair value are recognised in other comprehensive income and presented in a separate cash flow hedge reserve. Any ineffective portions of those movements are recognised in the income statement for the period.

2.20 Rebate provisions

The provision for sales credit notes due in respect of rebates is treated as a reduction to turnover and trade receivables.

2.21 Conditions of sale

The Group guarantees the products it supplies. Provision is made for any costs which are expected to be incurred after the year end under the terms of those guarantees.

2. Accounting policies (continued)

2.22 Financial instruments

The Group recognises financial instruments when it becomes a party to the contractual arrangements of the instrument. Financial instruments are de-recognised when they are discharged or when the contractual terms expire. The Group's accounting policies in respect of financial instruments transactions are explained below:

Financial liabilities

Financial liabilities at amortised cost including bank borrowings are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried into the Balance Sheet.

Financial assets

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Company will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the income statement. On confirmation that the trade receivable will not be collected, the gross carrying value of the asset is written off against the associated provision.