Eaton Electrical Systems Limited

Registered Number: 03012749

Report and Financial Statements

31 December 2018

Corporate information

Directors
M Mullin
S Currier
S Sparrow
R Davies
J Meikle

Auditors
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Strategic report

The Directors present their strategic report for the year ended 31 December 2018.

Introduction

The principal activity of Eaton Electrical Systems Limited (the Company) is the manufacture and distribution of lighting and fire detection equipment.

Business review

Despite a strong performance from lighting sales to the Middle East, turnover for the year ended 31 December 2018 decreased from 2017 by 4.4% to £89,343,000. This was largely due to reduced sales of fire detection equipment to export markets and reduced sales of own label lighting equipment in domestic markets. Gross margin percentage deteriorated by 1.3% due to adverse sales mix. Overhead costs were in line with the prior year.

The loss for the year, after taxation, is £7,481,000 (2017 – loss of £1,764,000).

The Directors do not recommend that a dividend is paid (2017 – £nil).

Eaton Corporation undertook an internal IP restructuring that was initiated during the year ended 31 December 2017. As part of the project, Eaton Electrical Systems Limited and Eaton Intelligent Power Limited entered into intercompany IP transfer agreements. The subject of the transfer included manufacturing process IP, technology IP, and related know how. This was not recorded as an asset historically on the balance sheet of Eaton Electrical Systems Limited because it was internally generated.

The gain on the transfer of IP of £3,491,000 was recorded through the income statement during the year ended 31 December 2017. The gain was calculated using the relief from royalty method which is an acceptable method to assess an arm's length charge in accordance with UK accounting standards.

Measurement of the Company's performance is applied consistently and control is exercised by local and divisional management. The Company has a budgeting system in place whereby actual performance is measured against budget on a monthly reporting timetable.

The Company's key financial and other performance indicators during the year and historical trend data, together with definition, method of calculation and analysis are set out below:

	2018	*2017*	*Method of calculation and analysis*
Company turnover	89,343	93,430	Notes 2.3a, 3
% change from prior year	(4.4)%	17.8%	
Gross profit	21,299	23,485	
As a % of net revenue	23.8%	25.1%	
Operating loss	(7,758)	(2,255)	Note 4
As a % of net revenue	(8.7%)	(2.4%)	
Trade receivable days	59.1	57.0	
Stock days	69.6	69.5	

Principal risks and uncertainties

The Company is exposed to a number of financial risks outlined in the financial risk management section of the Directors' report.

Furthermore, the management of the business and the execution of the Company's strategy are subject to a number of key business risks affecting the Company, which are set out below:

Strategic report (continued)

Pricing pressure

- The Company continues to experience strong pricing pressure from its competitors in key segments of the business.

Environmental

- The group pays particular attention to environmental matters and ensures corporate responsibility.
- The Company is committed to developing and implementing sustainable business practices. The Company's products are specifically designed to allow customers to reduce energy consumption and operate in a more sustainable manner. In addition the Company continues to work to reduce its own carbon footprint and has implemented a range of measures to reduce energy use, eliminate waste and to increase use of recyclable materials

Legislative

- In the UK and Europe, lighting equipment must be manufactured to EU standards. These standards are subject to continuous revision and any new directive may have a material impact on the ability of the Company to manufacture and supply products at a profit.

Brexit

- Eaton has implemented workstreams across all functional areas to review the impact of Brexit on its businesses and has a contingency plan in place for all scenarios that can be implemented if required. The Company is confident that the underlying business will be able to meet any initial and on-going challenges or opportunities that Brexit may bring.

By order of the board

M Mullin
Director

30 September 2019

Registered No. 03012749

Directors' report

The Directors present their report and financial statements for the year ended 31 December 2018.

Directors

M Mullin
S Currier
S Sparrow
R Davies
J Meikle (appointed 21st February 2019)

Dividends

The Directors do not recommend that a dividend is paid (2017 – £nil).

Future developments

Eaton Corporation plc, the Company's ultimate parent company, has announced plans to spin off certain activities from the group. This includes the mains lighting business in this company which equates to approximately 50% of total turnover. The directors expect this to be completed in late 2019. The remaining parts of the business are expected to continue to be a successful business and develop opportunities for profitable growth.

Financial risk management

The Company's policy does not permit trading in any financial instruments. The Company's principal financial instruments comprise of cash, intercompany deposits and or borrowings, the main purpose of which is to provide finance for its normal trading operations and to reduce the impact of currency exchange rate movements on trading results.

The Company has various other financial instruments such as trade debtors and creditors that arise directly from its trading operations.

The main risks arising from the Company's financial instruments are liquidity, foreign currency cash flow and credit risks. The Company has clear policies for managing each of these risks, as summarised below.

Liquidity risk

Liquidity risk is the risk that an organisation may not have, or not be able to raise, cash funds when needed. The Company aims to mitigate liquidity risk by managing cash generation by its operations and applying cash collection targets. Investment is carefully controlled, with authorisation limits operating at different levels up to group board level and with hurdle rates of return and cash payback periods applied as part of the investment appraisal process.

The Company participates in the overall world-wide group's funding strategy managed at corporate treasury level. The Company participates in a UK cash pool. The objective is to maintain a balance between continuity of funding and flexibility.

Directors' report (continued)

Foreign currency cash flow risk

The Company buys and sells goods and services denominated in currencies other than Sterling. The Company manages such receipts and payments through the operation of other denominated currency bank accounts. As a result of the value of the Company's non-Sterling revenues, purchases, financial assets and liabilities, cash flows can be affected significantly by movements in exchange rates.

The Company seeks, where appropriate, to mitigate its exposure to currency movements by working with the world-wide group's treasury department to enter into forward currency contracts, denominated in the same currency as the operating funds flow (against Sterling), to match transactional exposures on the balance sheet and future cash flow exposures anticipated in the business. Such forward contracts are entered into on the basis of regularly updated forecast information on the level of trading in each denominated currency.

Credit risk

The risk of financial loss due to a counterparty's failure to honour its obligations arises principally in relation to transactions where the Company provides goods and services on deferred credit terms.

Company policies are aimed at minimising such losses, and require that deferred terms are granted only to customers who demonstrate an appropriate payment history and satisfy creditworthiness procedures. Individual exposures are monitored with customers subject to credit limits to ensure that the Company's exposure to bad debts is not significant.

In agreeing annual budgets, the Company set limits for debtors' days and doubtful debts expense against which performance is monitored. Management's review of these performance indicators serves to reduce the likelihood of an unmanaged concentration of credit risk.

Research and development

The Company has continued its programme of research and development to improve a number of its existing products and to develop new products for the future.

Employees

The Company is committed to the principle of equal opportunity in employment. Our employment policies for recruitment, selection, training, development and promotion of employees are designed to ensure no application receives less favourable treatment on the grounds of age, race, nationality, religion, political beliefs, disability, sex or marital status.

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Company continues and that appropriate training is arranged. It is the policy of the Company that 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.

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 made aware of the financial and economic performance of their business units and of the Company as a whole.

Employee involvement

It is Company policy to communicate with and involve employees on matters affecting their interests at work and to inform them of the performance of the business. Each department adopts such employee consultations as appropriate.

Directors' report (continued)

Going concern

The Directors have undertaken an exercise to review the appropriateness of the continued use of the going concern basis. The Company's business activities, a review of the business and a description of the principal risks and uncertainties, together with the Company's financial risk management processes and narrative regarding its exposure to key financial risks are outlined above.

The Company participates in the group's centralised treasury arrangements, which operate across the group and so shares banking arrangements with its parent and fellow subsidiaries. Under such an arrangement, short term cash flow (both deficits and excesses) are managed by the group treasury to optimise the group's overall cash position. The Directors have made enquiries with group treasury that there is no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of Eaton group to continue as a going concern or its ability to continue with the current banking arrangements.

The Directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook. After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the annual report and financial statements.

Directors' liabilities

The Company has arranged insurance cover to indemnify one or more of its Directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the Directors' report

Auditors

In accordance with section 485 of the Companies Act 2006, a resolution is to be proposed at the Annual General Meeting for reappointment of Ernst & Young LLP as auditor of the Company.

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow Directors and the Company's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

On behalf of the Board

M Mullin
Director

30 September 2019

Directors' Responsibilities Statement

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

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

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

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report

To the members of Eaton Electrical Systems Limited

Opinion

We have audited the financial statements of Eaton Electrical Systems Limited for the year ended 31 December 2018 which comprise the Income statement, the Statement of comprehensive income, the Statement of changes in equity, the Statement of financial position and the related notes 1 to 24, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Conclusions relating to going concern

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

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Independent auditors' report (continued)

To the members of Eaton Electrical Systems Limited

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.
In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and Directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

Independent auditors' report (continued)

To the members of Eaton Electrical Systems Limited

Responsibilities of directors

As explained more fully in the Directors' responsibilities statement set out on page 7 the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

Ernst & Young LLP

Paul Copland (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Glasgow
30 September 2019

Income statement

for the year ended 31 December 2018

	Notes	2018 £000	2017 £000
Turnover	3	89,343	93,430
Cost of sales		(68,044)	(69,945)
Gross Profit		21,299	23,485
Distribution costs		(15,281)	(15,141)
Administrative expenses		(13,776)	(14,090)
Gain on disposal of intangible assets	4	-	3,491
Operating Loss	4	(7,758)	(2,255)
Interest receivable and similar income	8	105	4
Interest payable and similar costs	9	(23)	(24)
Other finance costs	10	227	108
Loss on ordinary activities before taxation		(7,449)	(2,167)
Tax on loss on ordinary activities	11	(32)	403
Loss for the financial year		(7,481)	(1,764)

All amounts relate to continuing operations

Statement of comprehensive income

for the year ended 31 December 2018

	Notes	*2018* *£000*	*2017* *£000*
Loss for the financial year		(7,481)	(1,764)
Re-translation of opening reserves of overseas operation		(14)	(69)
Actuarial loss arising during the year	21	(1,623)	(1,290)
Total other comprehensive loss for the year		(1,637)	(1,359)
Total comprehensive loss for the year		(9,118)	(3,123)

Statement of changes in equity

for the year ended 31 December 2018

	Called up share capital	*Profit and loss account*	*Total equity*
	£000	*£000*	*£000*
At 1 January 2017	550	48,749	49,299
Loss for the year	-	(1,764)	(1,764)
Retranslation of opening reserves of overseas operation	-	(69)	(69)
Actuarial loss on defined benefit scheme	-	(1,290)	(1,290)
Total comprehensive income for the year	-	(3,123)	(3,123)
At 31 December 2017	550	45,626	46,176
Loss for the year	-	(7,481)	(7,481)
Retranslation of opening reserves of overseas operation	-	(14)	(14)
Actuarial loss on defined benefit scheme	-	(1,623)	(1,623)
Total comprehensive income for the year	-	(9,118)	(9,118)
At 31 December 2018	550	36,508	37,058

Statement of financial position

at 31 December 2018

	Notes	*2018* £000	*2017* £000
Fixed assets			
Intangible assets	12	200	300
Tangible assets	13	7,784	7,354
Investments	14	-	-
		7,984	7,654
Current assets			
Stocks	15	12,978	13,320
Debtors: amounts falling due within one year	16	81,321	94,672
Cash at bank and in hand		448	2
Total current assets		94,747	107,994
Creditors: amounts falling due within one year	17	(64,413)	(68,287)
Net current assets		30,334	39,707
Total assets less current liabilities		38,317	47,361
Provisions for liabilities	18	(1,259)	(1,185)
Pensions	21	-	-
Net assets		37,058	46,176
Capital and reserves			
Called up share capital	19	550	550
Profit and loss account		36,508	45,626
		37,058	46,176

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

M Mullin
Director
30 September 2019

Notes to the financial statements

at 31 December 2018

1. Authorisation of financial statements and statement of compliance

Eaton Electrical Systems Limited is a limited liability company incorporated and domiciled in England and Wales. These financial statements were prepared in accordance with Financial Reporting Standard 102 (FRS 102). The financial statements are prepared under the historical cost convention, unless otherwise indicated in the significant accounting policies below, and are presented in Sterling.

The financial statements of Eaton Electrical Systems Limited for the year ended 31 December 2018 were authorised for issue by the board of directors on 30 September 2019 and the balance sheet was signed on the board's behalf by M Mullin.

2. Accounting policies

2.1 Basis of preparation

Eaton Electrical Systems Limited has taken advantage of the exemption available under section 400 of the Companies Act 2006 from the requirement to prepare group financial statements as it is a wholly owned subsidiary of Eaton Corporation PLC, which prepares publicly available group financial statements which include the results of the Company and its subsidiaries. Eaton Electrical Systems Limited financial statements therefore purely reflect the Company as an individual undertaking.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2018.

Eaton Electrical Systems Limited has taken advantage of the following disclosure exemptions under FRS 102:

(a) the requirements of section 4 Statement of Financial Position- Paragraph 4.12 (a) (iv)

(b) the requirements of section 7 Statement of Cash Flows and Section 3 Financial Statement Presentation paragraph 3.17(d)

(c) the requirements of Basic Financial Instruments paragraphs 11.39 to 11.48A and section 12 Other Financial Instruments Issues paragraphs 12.26 to 12.29

(d) the requirements of Section 26 Share based Payment: paragraph 26.18 (b), 26.19 to 26.21 and 26.23

(e) requirements of Section 33 Related Party Disclosures, paragraph 33.7

Notes to the financial statements continued

at 31 December 2018

2.2 Judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

The following judgments have the most significant effect on amounts recognised in the financial statements.

Taxation

Management estimation is required to determine the amount of deferred tax assets that can be recognised based upon likely timing and level of future taxable profits together with assessment of the effect of future tax planning strategies.

Goodwill and intangible assets

The Company establishes a reliable estimate of the useful life of goodwill and intangible assets arising on business combinations. This estimate is based on a variety of factors such as the expected use of the acquired business, the expected usual 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.

Warranties

The warranty provision represents management's best estimate of the Company's liability under warranties granted on products sold, based on past experience and industry averages for defective products. It is anticipated that most of these costs will be incurred in the next five years.

2.3 Significant accounting policies

(a) Revenue recognition

Revenue is recognised to the extent that the Company obtains the right to consideration in exchange for its performance. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duty. The following criteria must also be met before revenue is recognised:

Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on dispatch of the goods, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

Revenue from the rendering of services is recognised by reference to the stage of completion. Stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours for each contract. Where the contract outcome cannot be measured reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

(b) Research and development costs

Research and development expenditure is written off as incurred.

Notes to the financial statements continued

at 31 December 2018

2.3 Significant accounting policies (continued)

(c) Tangible fixed assets

Plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost comprises the aggregate amount paid and the fair value of any other consideration given to acquire the asset and includes costs directly attributable to making the asset capable of operating as intended.

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset on a straight line basis over its expected useful life, as follows:

Freehold buildings	–	over 40 years
Plant and machinery	–	over 10 years
Fixtures, fittings, tools and equipment	–	over 3 to 10 years

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable, and are written down immediately to their recoverable amount. Useful lives and residual values are reviewed annually and where adjustments are required these are made prospectively.

(d) Impairment of non-financial assets

The Company assesses at each reporting date whether an asset may be impaired. If any such indication exists the Company estimates recoverable amount of the asset. If it is not possible to estimate the recoverable amount of the individual asset, the Company estimates, the recoverable amount of the cash- generating unit to which the asset belongs. The recoverable amount of an asset or cash-generating unit is the higher of its fair value less costs to sell and its value in use. If the recoverable amount is less than its carrying amount, the carrying amount of the asset is impaired and it is reduced to its recoverable amount through an impairment in profit and loss unless the asset is carried at a revalued amount where the impairment loss of a revalued asset is a revaluation decrease.

An impairment loss recognised for all assets, including goodwill, is reversed in a subsequent period if and only if the reasons for the impairment loss have ceased to apply.

(e) Investments

Shares in group undertakings

These comprise investments in subsidiaries and are recognised at cost less impairment.

(f) Provision for liabilities

A provision is recognised when Eaton Electrical Systems Limited has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

Provisions for the expected costs of maintenance under guarantees are charged against profits when products have been invoiced. The effect of the time value of money is not material and therefore the provisions are not discounted.

Provisions for warranty costs are recognised at the date of sale of the relevant products, at the Directors' best estimate of the expenditure required to settle the Company's liability. In addition, if an issue was identified such that the product range needed to be recalled or reworked in some way, the anticipated costs of the total campaign were provided as soon as they could be readily ascertained.

Notes to the financial statements continued

at 31 December 2018

2.3 Significant accounting policies (continued)

(g) Stock and work in progress

Stocks are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition, as follows:

Raw materials: purchase cost on a first-in, first-out basis

Work in progress and finished goods: cost of direct materials and labour plus attributable overheads based on a first-in, first-out basis on a normal level of activity.

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

(h) Leasing and hire purchase

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term. Lease incentives are recognised over the lease term on a straight line basis.

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the arrangement. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

(i) Financial Instruments

Cash at bank and in hand

Cash and cash equivalents in the balance sheet comprise cash at banks and in hand and short term deposits with an original maturity date of three months or less.

Short-term debtors and creditors

Debtors and creditors with no stated interest rate and receivable or payable within one year are recorded at transaction price. Any losses arising from impairment are recognised in the income statement in operating expenses.

(j) Deferred tax

Deferred tax is recognised in respect of all timing differences which are differences between taxable profits and total comprehensive income that arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements, except that unrelieved tax losses and other deferred tax assets are recognised only to the extent that the Directors consider that it probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Notes to the financial statements continued

at 31 December 2018

2.3 Significant accounting policies (continued)

(k) Pensions commitments

Defined benefit scheme

The Company operates a pension scheme based on final pensionable pay. The assets of the scheme are held separately from those of the Company. Pension scheme assets are measured using market values, for quoted securities the current bid price is taken as market value. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The Pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement in the scheme deficit/surplus is split between operating charges, finance items and, in the statement of comprehensive income, actuarial gains and losses.

Defined contribution scheme

Contributions to defined contribution schemes are recognised in the income statement in the period in which they become payable.

(l) Going concern

The Directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook. After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the annual report and financial statements.

(m) Foreign currency

Transactions in foreign currencies are initially recorded in the entity's functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

(n) Merger accounting

Group reorganisations where the ultimate equity holders remain the same, and the rights of each equity holder, relative to the others, are unchanged; and no non-controlling interest in the net assets of the group is altered by the transfer, are accounted for using merger accounting. The carrying values of the assets and liabilities of the parties to the combination are not adjusted to fair value. The difference, if any, between the book value of the assets and liabilities and the consideration shall be shown as a movement in reserves. These movements shall be shown in the statement of changes in equity.

(o) Exceptional items

Exceptional items are events or transactions that fall within the activities of the Company and which by virtue of their size or incidence have been disclosed in order to improve a reader's understanding of the financial statements.

Notes to the financial statements continued

at 31 December 2018

3. Turnover

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties and to fellow subsidiary undertakings.

Turnover is attributable to continuing activities in the UK.

An analysis of turnover by geographical market is given below:

	2018	2017
	£000	£000
United Kingdom	41,363	47,581
Continental Europe	14,446	12,930
Australasia and Far East	3,432	5,994
Rest of the World	30,102	26,925
	89,343	93,430

4. Operating Loss

This is stated after charging/(crediting):

			2018	2017
			£000	£000
Research and development expenditure written off			1,741	1,618
Depreciation of owned assets			717	747
Profit on disposal of intangible asset			-	(3,491)
Restructuring costs			4	206
Operating lease rentals	–	land and buildings	125	129
	–	others	1,442	1,405
Amortisation of goodwill			100	102
Amortisation of government grants			(19)	(23)
Provision for warranty claims			768	642
Auditors' remuneration (see note 5)			80	94

Eaton Corporation undertook an internal IP restructuring that was initiated during the year ended 31 December 2017. As part of the project, Eaton Electrical Systems Limited and Eaton Intelligent Power Limited entered into intercompany IP transfer agreements. The subject of the transfer included manufacturing process IP, technology IP, and related know how. This was not recorded as an asset historically on the balance sheet of Eaton Electrical Systems Limited because it was internally generated.

The gain on the transfer of IP of £3,491,000 was recorded through the income statement during the year ended 31 December 2017. The gain was calculated using the relief from royalty method which is an acceptable method to assess an arm's length charge in accordance with UK accounting standards.

Notes to the financial statements continued

at 31 December 2018

5. Auditor's remuneration

The Company paid the following amounts to its auditors in respect of the audit of the financial statements and for other services provided to the Company.

	2018	*2017*
	£000	*£000*
Audit of the financial statements and taxation services	80	94

6. Staff costs

(a) Staff costs

Staff costs, including Directors' remuneration, were as follows

	2018	*2017*
	£000	*£000*
Wages and salaries	22,618	22,474
Social security costs	1,861	1,866
Pension cost defined contribution	1,873	1,936
Pension cost defined benefit	279	(11)
	26,631	26,265

(b) Staff numbers

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

	2018	*2017*
	No.	*No.*
Manufacturing	360	376
Distribution	252	269
Administration	54	58
	666	703

7. Directors remuneration

Remuneration in respect of Directors remunerated by Eaton Electrical Systems Limited:

	2018	*2017*
	£000	*£000*
Remuneration	325	323
Company contributions to money purchase pension schemes	28	52
	353	375

Notes to the financial statements continued

at 31 December 2018

7. Directors remuneration (continued)

	2018	*2017*
	No.	*No.*
Number of directors who received shares in respect of qualifying services	0	1
Number of directors who exercised share options	0	2
Number of directors who are members of money purchase pension schemes	3	3

Highest paid director

	2018	*2017*
	£000	*£000*
Remuneration	204	198
Contributions to money purchase pension schemes	18	36
	222	234

Contributions totalling £nil (2017 – £nil) were payable to the fund at the balance sheet date and are included in creditors.

The Directors remunerated by Eaton Electrical Systems Limited perform qualifying services for this company only and not for other companies in the Eaton group.

No other director received, or was due to receive, any emoluments in connection with their services as a director of the Company during the year. The fair value of the services received has been assessed at £5,000 per director; therefore, Eaton Electrical Systems Limited recognises a notional charge of £10,000 (2017: £10,000) for director's services during the year.

8. Interest receivable and similar income

	2018	*2017*
	£000	*£000*
On loans and balances due from fellow group undertakings	105	4
	105	4

9. Interest payable and similar costs

	2018	*2017*
	£000	*£000*
On loans and balances due to fellow group undertakings	23	24
	23	24

Notes to the financial statements continued

at 31 December 2018

10. Other finance costs

	2018	*2017*
	£000	*£000*
Interest on pension liabilities	(1,161)	(1,218)
Interest on pension assets	1,388	1,326
	227	108

11. Taxation

(a) Tax on loss on ordinary activities

The tax charge is made up as follows:

	2018	*2017*
	£000	*£000*
Current tax:		
UK corporation tax at 19% (2017: 19.25%)	16	-
Foreign tax	60	62
Total current tax	76	62
Deferred tax:		
Origination and reversal of temporary differences	(62)	15
Adjustment in respect of prior year	18	(464)
Effect of change in the tax rate on opening liability	-	(16)
Other	-	-
Total change in the deferred tax	(44)	(465)
Tax on loss on ordinary activities	32	(403)

Notes to the financial statements continued

at 31 December 2018

11. Taxation (continued)

(b) Factors affecting the total tax charge

The tax assessed on the profit on ordinary activities for the year is higher/lower than the standard rate of corporation tax in the UK of 19% (2017 – 19.25%). The differences are reconciled below:

	2018 *£000*	*2017* *£000*
Loss on ordinary activities before tax	(7,449)	(2,167)
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2017-19.25%)	(1,415)	(417)
Expenses not deductible for tax purposes (including goodwill amortisation)	25	41
Income not taxable	(389)	(21)
Share options	(13)	(15)
Adjustment from previous periods	18	(464)
Tax rate changes	-	(18)
Foreign tax	60	62
Deferred tax not recognised	(39)	(248)
Other	64	-
Group relief	1,721	677
Total tax (credit)/expense	32	(403)

(c) Factors that may affect future tax charges

The UK corporation tax rate reduced from 20% to 19% effective from 1 April 2017. The Finance Act 2016, substantively enacted on 6 September 2016, includes legislation that will further reduce the main rate of corporation tax to 17%, effective from 1 April 2020.

Notes to the financial statements continued

at 31 December 2018

11. *Taxation (continued)*

(d) Deferred tax

The deferred tax included in the balance sheet is as follows:

	2018	*2017*
	£000	*£000*
Included in provisions for liabilities (note 18)	(105)	(149)
Accelerated capital allowances	(246)	(191)
Other timing differences	141	42
Provision for deferred tax	(105)	(149)

At 1 January 2018	(149)
Deferred tax credit in profit and loss account	44
At 31 December 2018	(105)

The deferred tax balances as at 31 December 2018 have been restated at a rate of 19% as this is the rate at which deferred tax is expected to reverse.

Notes to the financial statements continued

at 31 December 2018

12. Intangible fixed assets

	Goodwill
	£000
Cost:	
At 1 January 2018 and 31 December 2018	1,002
Amortisation and impairment:	
At 1 January 2018	(702)
Provided during the year	(100)
At 31 December 2018	(802)
Carrying amount	
At 31 December 2018	200
At 31 December 2017	300

Goodwill is being amortised evenly over the Directors' estimate of its useful economic life of 10 years based on pre-tax cash flow projections derived from financial budgets covering the amortization period. Amortisation charge for the year is £100,000, (2017 - £102,000). The remaining amortisation period is 2 years.

13. Tangible fixed assets

	Short leasehold land and buildings	*Freehold property*	*Plant and machinery*	*Fixtures, fittings, tools and equipment*	*Total*
	£000	*£000*	*£000*	*£000*	*£000*
Cost:					
At 1 January 2018	349	6,448	16,683	258	23,738
Additions	49	41	1,040	17	1,147
Transfer from group undertakings	48	-	67	(48)	67
At 31 December 2018	446	6,489	17,790	227	24,952
Depreciation and impairment:					
At 1 January 2018	39	2,050	14,172	123	16,384
Provided during the year	27	155	491	44	717
Transfer from group undertakings	48	-	67	(48)	67
At 31 December 2018	114	2,205	14,730	119	17,168
Carrying amount					
At 31 December 2018	332	4,284	3,060	108	7,784
At 31 December 2017	310	4,398	2,511	135	7,354

The value of freehold land included in land and buildings amounted to £1,322,848 (2017 - £1,322,848)

Notes to the financial statements continued

at 31 December 2018

14. Investments: Shares in group undertakings

	Investments in subsidiary companies £000
Cost:	
At 1 January 2018	55,777
Disposals	(55,777)
At 31 December 2018	-
Impairment:	
At 1 January 2018	55,777
Disposals	(55,777)
At 31 December 2018	-
Carrying amount	
As at 31 December 2018	-

Details of subsidiary undertaking:

As part of legal entity rationalisation program in the United Kingdom, Ex Innovations Ltd and Polaron Components Ltd were struck off during the year.

15. Stocks

	2018 £000	*2017 £000*
Raw materials and consumables	3,307	3,138
Work in progress	1,650	1,439
Finished goods and goods for resale	8,021	8,743
	12,978	13,320

The difference between purchase price or production cost of stocks and their replacement cost is not material.

Stocks recognised as an expense in the period were £62,057,000 (2017 – £67,991,000).

Notes to the financial statements continued

at 31 December 2018

16. Debtors

	2018	*2017*
	£000	*£000*
Trade and other receivables	14,478	14,596
Prepayments and accrued income	2,451	987
Amounts owed by group undertakings	63,981	78,498
Corporation tax	344	369
Other debtors	67	222
	81,321	94,672

Included within amounts owed by group undertakings is an unsecured balance of £36,156,879 which has no fixed date of repayment and is repayable on demand. Interest is charged at 0.2%.

17. Creditors: amounts falling due within one year

	2018	*2017*
	£000	*£000*
Trade creditors	9,911	9,042
Amounts owed to group undertakings	49,160	54,884
Taxation and social security	1,902	1,605
Other creditors	896	641
Accruals and deferred income	2,544	2,115
	64,413	68,287

Included within amounts owed to group undertakings is an unsecured balance of £2,085,556 which has no fixed date of repayment and is repayable on demand. Interest is charged at 1%.

18. Provisions for liabilities

	Warranty provision	*Deferred tax*	*Total*
	£000	*£000*	*£000*
At 1 January 2018	1,036	149	1,185
Additions during the year	768	(44)	724
Amounts charged against the provision	(650)	-	(650)
At 31 December 2018	1,154	105	1,259

The warranty provision represents management's best estimate of the Company's liability under warranties granted on products sold, based on past experience and industry averages for defective products. It is anticipated that most of these costs will be incurred in the next five years.

Notes to the financial statements continued

at 31 December 2018

19. Issued share capital

	2018	2017
	£000	£000
11,000,000 (2017 – 11,000,000) ordinary shares of 5p each	550	550

20. Related party disclosures

During the year the Company entered into transactions, in the ordinary course of business, with other related parties. The Company has taken advantage of the exemption in Section 33.1A, whereby disclosures need not be given of 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.

Notes to the financial statements continued

at 31 December 2018

21. Pensions

The Company participates in a number of pension schemes including the Cooper Consolidated Pension Plan - a defined benefit pension scheme. The scheme was closed to new entrants on 1 April 1993 and closed to future accrual on 1 May 2008.

Contributions of £1,675,000 were made to the scheme by the Company in 2018 (2017 - £1,170,680)

The valuation used has been based on the most recent actuarial valuation of 5 April 2013 and was updated for FRS 102 purposes at 31st December 2018 by a qualified, independent actuary. The major assumptions used by the actuary to determine the liabilities on a FRS102 basis for the scheme are set out below:

	2018	*2017*
	%	*%*
Inflation	2.50 to 3.50	2.85 to 3.60
Pension increases	2.10 to 3.35	2.30 to 3.45
Discount rate	2.85	2.60

The major categories of assets as a percentage of total assets are as follows:

	2018	*2017*
	%	*%*
Equities	16	31
Gilts	-	-
Bonds	7	10
Cash	1	1
Other Assets	76	58

The assets of the scheme and expected rate or return were:

	2018	*2017*	*2016*	*2015*	*2014*
	£000	*£000*	*£000*	*£000*	*£000*
Defined benefit obligation	(43,154)	(45,425)	(44,225)	(37,851)	(38,121)
Scheme assets	51,337	53,405	47,494	38,169	36,965
Surplus/(Deficit) in scheme	8,183	7,980	3,269	318	(1,156)

No asset is recorded on the Company's statement of financial position with respect to the surplus in the scheme.

Notes to the financial statements continued

at 31 December 2018

21. Pensions (continued)

Changes in the defined benefit obligation during the year:

	2018	*2017*
	£000	*£000*
Defined benefit obligation at 1 January	(45,425)	(44,225)
Past service cost	(129)	-
Interest cost	(1,161)	(1,218)
Benefits paid	1,541	1,474
Re-measurement effects recognised in OCI	-	-
Changes to assumptions	2,020	(1,456)
Defined benefit obligation at 31 December	(43,154)	(45,425)

Changes in the scheme assets during the year:

	2018	*2017*
	£000	*£000*
Fair value of assets at 1 January	53,405	47,494
Interest on assets	1,388	1,326
Company contributions	1,675	1,675
Benefits paid	(1,541)	(1,474)
Administration costs	(150)	(493)
Return on plan assets less interest	(3,440)	4,877
Fair value of assets at 31 December	51,337	53,405

The other schemes in which the Company participates are defined contribution pension schemes. The pension cost charged to the profit and loss account represents the contributions payable by the Company to the scheme and amounted to £1,873,000 in the year ended 31 December 2018 (2017 - £1,936,000).

Contributions totalling £nil (2017 – £nil) were payable to the fund at the balance sheet date and are included in creditors.

Notes to the financial statements continued

at 31 December 2018

22. Operating lease commitments

Future minimum rentals payable under non-cancellable operating leases are as follow:

	Land and buildings 2018 *£000*	*Other* 2018 *£000*	*Land and buildings* 2017 *£000*	*Other* 2017 *£000*
Not later than one year	319	662	280	748
After one year but not more than five years	980	1,445	1,080	748
After five years	-	112	77	-

23. Ultimate parent undertaking and controlling party

The Company's immediate parent undertaking is Eaton Industries (UK) Ltd, a company registered in England and Wales.

The Company's ultimate parent undertaking and controlling party is Eaton Corporation plc which is incorporated in Ireland. The only group of which the Company is a member and for which group financial statements are prepared is that headed by Eaton Corporation plc. Copies of the 2018 Annual Report of Eaton Corporation plc can be obtained from the following address:

Eaton Center
1,000 Eaton Boulevard
Cleveland
Ohio 44122
USA

24. Events after the reporting period

Eaton Corporation plc, the Company's ultimate parent company, has announced plans to spin off certain activities from the group. This includes the mains lighting business in this company which equates to approximately 50% of total turnover. The directors expect this to be completed in late 2019. The remaining parts of the business are expected to continue to be a successful business and develop opportunities for profitable growth.