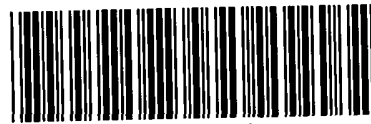


REGISTERED NUMBER: 04806503 (England and Wales)

Parker Hannifin Manufacturing Limited
Strategic Report, Report of the Directors and
Financial Statements for the Year Ended 30 June 2017

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for the Year Ended 30 June 2017**

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Parker Hannifin Manufacturing Limited

**Company Information
for the Year Ended 30 June 2017**

DIRECTORS:

G M Ellinor
J A D Elsey
M A Brailsford
G Malherbe
A Spivey
H Preston

SECRETARY:

G M Ellinor

REGISTERED OFFICE:

Parker House
55 Maylands Avenue
Hemel Hempstead
Hertfordshire
HP2 4SJ

REGISTERED NUMBER:

04806503 (England and Wales)

AUDITOR:

Deloitte LLP
Statutory Auditor
St Albans
United Kingdom

SOLICITORS:

Eversheds LLP
Eversheds House
70 Great Bridgewater Street
Manchester
M1 5ES

**Strategic Report
for the Year Ended 30 June 2017**

The directors present their strategic report for the year ended 30 June 2017.

REVIEW OF BUSINESS

The company has made a profit after taxation of £7,834,000 (2016: profit of £5,797,000).

The turnover in the current year relates to fees charged for services performed on behalf of Parker Hannifin EMEA Sarl.

On 4 July 2016, the company acquired the manufacturing trade and assets of President Engineering Group Limited at market value for a consideration of £12,950,000. The consideration for this transaction comprised of intercompany debt.

During the year, the company continued to see signs of an economic recovery, reflected in the profitability at an operational level. Strategic initiatives relating to growth and margin improvement as well as the implementation of a number of business realignment initiatives, including plant closures, continued to help meet objectives.

The balance sheet shows net assets as at 30 June 2017 of £203,582,000 (30 June 2016: net assets of £191,694,000).

PRINCIPAL RISKS AND UNCERTAINTIES

The management of the business and the execution of the company's strategy are subject to a number of risks.

The key business risks and uncertainties affecting the company are considered to relate to the expansion or contraction of the manufacturing economy, industrial competition and employee retention. The company believes there is a high negative correlation between interest rates and industrial manufacturing activity. Increases in interest rates typically have a negative impact on industrial production thereby lowering future orders while decreases in interest rates typically have the opposite effect.

BY ORDER OF THE BOARD:



.....
G M Ellinor - Director

Date: 13 MARCH 2018

Parker Hannifin Manufacturing Limited (Registered number: 04806503)

**Report of the Directors
for the Year Ended 30 June 2017**

The directors present their annual report and the audited financial statements of the company for the year ended 30 June 2017.

PRINCIPAL ACTIVITY

The principal activity of the company is, and will continue to be, to act as a manufacturer on behalf of Parker Hannifin Holding EMEA Sarl, a fellow group company.

DIVIDENDS

The directors do not recommend the payment of a dividend (2016: £Nil).

RESEARCH AND DEVELOPMENT

The company has continued to invest in research and development programmes and infrastructure to support and expand its range of products. The company's research and development expenditure for the year ended 30 June 2017 amounts to £5,276,000 (2016: £8,307,000).

FUTURE DEVELOPMENTS

It is anticipated that the company will continue to operate in its current form for the foreseeable future.

DIRECTORS

The directors shown below have held office during the whole of the period from 1 July 2016 to the date of this report.

G M Ellinor
J A D Elsey
M A Brailsford

Other changes in directors holding office are as follows:

D Turnbull - resigned 1 October 2016
P R Bale - resigned 7 April 2017
M Mead - appointed 9 November 2016 - resigned 15 May 2017
G Malherbe - appointed 4 January 2017
A Spivey - appointed 4 January 2017
H Preston - appointed 29 March 2017

GOING CONCERN

The company's business activities, together with the factors likely to affect its future development and position, are set out in the review of business and future developments sections.

The company is expected to continue to generate positive cash flows through its own activities and participates in the group's centralised treasury arrangements. Therefore, treasury banking activity is shared with its parent and fellow subsidiaries.

The ultimate parent undertaking, Parker Hannifin Corporation, has provided a written undertaking to continue to provide financial support to the company as and when required. The directors, having assessed the responses of the directors of Parker Hannifin Corporation to their enquiries, have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the Parker Hannifin Corporation group to continue as a going concern or its ability to continue with the current banking arrangements.

Despite the current economic conditions, the financial condition of the parent undertaking remains strong. It continues to generate substantial cash flows from operations, has controlled capital spending and has proactively managed working capital, with particular attention to collecting receivables from customers in financial difficulty. It has been able to borrow needed funds at affordable interest rates.

On the basis of their assessment of Parker Hannifin Corporation's financial position and of the enquiries made of its directors, the company's directors have a reasonable expectation that the company will be able to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

**Report of the Directors
for the Year Ended 30 June 2017**

FINANCIAL INSTRUMENTS

The company does not employ the use of complex financial instruments, such as derivatives or hedging contracts.

KEY PERFORMANCE INDICATORS ("KPI'S")

The directors manage the company's operations on a divisional basis. For this reason, the company's directors believe that analysis using key indicators for the company is not necessary or appropriate for an understanding of the development, performance or position of the business of the company.

The development, performance and position of the motion control systems sector is discussed in the annual report of the ultimate parent undertaking, Parker Hannifin Corporation, which does not form part of this report.

EMPLOYEE POLICIES

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 the appropriate training is arranged.

It is the policy of the company that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

Consultation with employees or their representatives has continued at all levels, with the aim of ensuring that views are taken into account when decisions are made that are likely to affect their interests and that all employees are aware of the financial and economic performance of their business units and of the company as a whole.

Communication with all employees continues through internal communication, briefing groups and the distribution of the annual report.

QUALIFYING THIRD PARTY INDEMNITY PROVISIONS

A qualifying third party indemnity provision as defined in Section 232(2) of the Companies Act 2006 is in force for the benefit of each of the directors and the company secretary in respect of liabilities incurred as a result of their office, to the extent permitted by law.

In respect of those liabilities for which directors may not be indemnified a directors' and officers' liability insurance policy was maintained by the Parker Hannifin Corporation group throughout the financial year.

DISCLOSURE IN THE STRATEGIC REPORT

The Review of Business and the Principal Risks and Uncertainties are disclosed in the Strategic Report.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Strategic Report, the Report of the Directors 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 these financial statements, the directors are required to:

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

**Report of the Directors
for the Year Ended 30 June 2017**

STATEMENT OF DIRECTORS' RESPONSIBILITIES - continued

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.

DISCLOSURE OF INFORMATION TO THE AUDITOR

The directors confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware. The directors also confirm that they have each taken all the steps that they ought to have taken in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

AUDITOR

The auditor, Deloitte LLP, has indicated its willingness to continue in office and a resolution that they be reappointed will be proposed at the annual general meeting.

BY ORDER OF THE BOARD:



.....
G M Ellinor - Director

Date: 13 MARCH 2018

**Independent Auditor's Report to the Members of
Parker Hannifin Manufacturing Limited**

Report on the audit of the financial statements

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 June 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Parker Hannifin Manufacturing Limited (the 'company') which comprise:

- the income statement;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 26.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including 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 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 are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in 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.

We have nothing to report in respect of these matters.

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.

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 this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Independent Auditor's Report to the Members of Parker Hannifin Manufacturing Limited

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 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: 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.

Report on other legal and regulatory requirements

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 the directors' report have been prepared in accordance with applicable legal requirements.


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 any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters 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.

We have nothing to report in respect of these matters.


Craig Wisdom ACA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Statutory Auditor

Date: 16 March 2018

Parker Hannifin Manufacturing Limited (Registered number: 04806503)

**Income Statement
for the Year Ended 30 June 2017**

	Notes	30.6.17 £'000	30.6.16 £'000
TURNOVER	5	132,557	127,245
Cost of sales		<u>(118,719)</u>	<u>(113,539)</u>
GROSS PROFIT		13,838	13,706
Administrative expenses		<u>(89)</u>	<u>(1,427)</u>
		13,749	12,279
Other operating income		<u>914</u>	<u>856</u>
OPERATING PROFIT	8	14,663	13,135
Income from fixed asset investments - net dividends from subsidiary undertakings	9	-	1,320
Interest receivable and similar income	10	<u>1,587</u>	<u>557</u>
		16,250	15,012
Impairment of fixed asset investments	11	<u>(1,660)</u>	<u>-</u>
		14,590	15,012
Interest payable and similar expenses	12	<u>(186)</u>	<u>(4,794)</u>
Other finance costs	23	<u>(1,700)</u>	<u>(2,000)</u>
PROFIT BEFORE TAXATION		12,704	8,218
Tax on profit	13	<u>(4,870)</u>	<u>(2,421)</u>
PROFIT FOR THE FINANCIAL YEAR		<u>7,834</u>	<u>5,797</u>

The notes on pages 12 to 32 form part of these financial statements

**Statement of Total Comprehensive Income
for the Year Ended 30 June 2017**

	Notes	30.6.17 £'000	30.6.16 £'000
PROFIT FOR THE YEAR		7,834	5,797
OTHER COMPREHENSIVE INCOME			
Actuarial gain/(loss) on pension scheme		3,600	(20,200)
Income tax relating to other comprehensive income		<u>(684)</u>	<u>4,040</u>
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF INCOME TAX		<u>2,916</u>	<u>(16,160)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>10,750</u>	<u>(10,363)</u>

Parker Hannifin Manufacturing Limited (Registered number: 04806503)

**Balance Sheet
30 June 2017**

	Notes	30.6.17 £'000	30.6.16 £'000
FIXED ASSETS			
Intangible assets	14	88,582	90,773
Tangible assets	15	27,672	30,125
Investments	16	<u>128,550</u>	<u>110,434</u>
		<u>244,804</u>	<u>231,332</u>
CURRENT ASSETS			
Debtors: amounts falling due within one year	17	139,216	89,993
Debtors: amounts falling due after more than one year	17	120,000	-
Cash in hand		<u>8,824</u>	<u>144,891</u>
		<u>268,040</u>	<u>234,884</u>
CREDITORS			
Amounts falling due within one year	18	<u>(242,241)</u>	<u>(198,468)</u>
NET CURRENT ASSETS		<u>25,799</u>	<u>36,416</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>270,603</u>	<u>267,748</u>
PROVISIONS FOR LIABILITIES	20	(490)	(490)
PENSION LIABILITY	23	<u>(66,531)</u>	<u>(75,564)</u>
NET ASSETS		<u>203,582</u>	<u>191,694</u>
CAPITAL AND RESERVES			
Called up share capital	21	268,463	268,463
Capital contribution reserve	22	56,884	56,884
Share option reserve	22	9,745	8,606
Profit and loss account	22	<u>(131,510)</u>	<u>(142,259)</u>
SHAREHOLDERS' FUNDS		<u>203,582</u>	<u>191,694</u>

The financial statements were approved and authorised for issue by the Board of Directors on 13 MARCH 2018 and were signed on its behalf by:



G M Ellinor - Director

**Statement of Changes in Equity
for the Year Ended 30 June 2017**

	Called up share capital £'000	Profit and loss account £'000	Share premium account £'000
Balance at 1 July 2015	151,766	(214,796)	82,900
Changes in equity			
Issue of share capital	116,697	-	-
Total comprehensive income	-	(10,363)	-
Capital reduction	-	82,900	(82,900)
Balance at 30 June 2016	<u>268,463</u>	<u>(142,259)</u>	<u>-</u>
Changes in equity			
Total comprehensive income	-	10,750	-
Balance at 30 June 2017	<u>268,463</u>	<u>(131,509)</u>	<u>-</u>
	Capital contribution reserve £'000	Share option reserve £'000	Total equity £'000
Balance at 1 July 2015	56,884	7,546	84,300
Changes in equity			
Issue of share capital	-	-	116,697
Total comprehensive income	-	(1)	(10,364)
Addition to share option reserve	-	1,061	1,061
Balance at 30 June 2016	<u>56,884</u>	<u>8,606</u>	<u>191,694</u>
Changes in equity			
Total comprehensive income	-	-	10,750
Addition to share option reserve	-	1,139	1,139
Balance at 30 June 2017	<u>56,884</u>	<u>9,745</u>	<u>203,583</u>

**Notes to the Financial Statements
for the Year Ended 30 June 2017**

1. GENERAL INFORMATION ON THE COMPANY

The principal activity of the Company is the supply to the United Kingdom market of all Parker Hannifin products through the local country sales location, as well as the manufacture and sale of motion control products to the United Kingdom and other territories. The Company is a wholly owned subsidiary in the group of which Parker Hannifin Corporation is the ultimate parent.

2. STATUTORY INFORMATION

Parker Hannifin Manufacturing Limited is a private company, limited by shares, incorporated in the United Kingdom and registered in England and Wales. The company's registered number and registered office address can be found on the Company Information page.

3. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and the Companies Act 2006.

4. ACCOUNTING POLICIES

Basis of preparing the financial statements

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The functional currency of the Company is considered to be pounds sterling because that is the currency of the primary economic environment in which the Company operates.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed below.

Financial reporting standard 102 - reduced disclosure exemptions

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- the requirements of Section 7 Statement of Cash Flows;
- the requirements of Section 11 Financial Instruments paragraphs 11.41(b), 11.41(c), 11.41(e), 11.41(f), 11.42, 11.44, 11.45, 11.47, 11.48(a)(iii), 11.48(a)(iv), 11.48(b) and 11.48(c);
- the requirements of Section 26 Share-based Payment paragraphs 26.18(b), 26.19 to 26.21 and 26.23;
- the requirement of Section 33 Related Party Disclosures paragraph 33.7.

Consolidation

The financial statements contain information about Parker Hannifin Manufacturing Limited as an individual company and do not contain consolidated financial information as the parent of a group. The company is exempt under Section 401 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included in the consolidated financial statements of its ultimate parent undertaking, Parker Hannifin Corporation, a company incorporated in the USA.

Related party transactions

The company has taken advantage of exemption, under the terms of Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', not to disclose related party transactions with wholly owned subsidiaries within the group.

**Notes to the Financial Statements - continued
for the Year Ended 30 June 2017**

4. ACCOUNTING POLICIES - continued

Critical accounting judgements and estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. The following judgements and estimates have had the most significant effect on amounts recognised in the financial statements due the quantitative materiality of the items involved:

Judgements:

Pension assumptions:

Directors take advice from the actuary and base their assumptions on realistic longevity and mortality tables, as well as the discount rate and inflation.

Estimates:

Goodwill:

Goodwill pertaining to businesses previously acquired, being the excess of the fair value of the purchase price over the fair value of net assets acquired, is accumulated and amortised over the directors' estimate of the life of the goodwill, not exceeding 20 years. Goodwill pertaining to businesses acquired after the end of the previous accounting period (1 July 2015 onwards) is accumulated and amortised over the directors' estimate of the life of the goodwill, not exceeding 10 years.

Intangible assets:

Intangible assets previously acquired are accumulated and amortised over the directors' estimate of the life of the assets, not exceeding 20 years. Intangible assets acquired after the end of the previous accounting period (1 July 2015 onwards) is accumulated and amortised over the directors' estimate of the life of the assets, not exceeding 10 years.

**Notes to the Financial Statements - continued
for the Year Ended 30 June 2017**

4. ACCOUNTING POLICIES - continued

Turnover

Turnover, which excludes value added tax, comprises fees for services performed on behalf of Parker Hannifin Europe Sarl, and the sale of inventory as mentioned in the Report of the Directors. The fee revenue is recognised in the period in which the related expenditure is incurred.

Business combinations, goodwill and intangible assets

Combinations of externally acquired business are accounted for using the purchase method. Combinations involving the acquisition of the businesses of other group undertakings, including the hive up of trade and assets of subsidiary undertakings, where there is no change in the ultimate ownership of the business are accounted for as acquisitions using predecessor values.

The Company has elected to apply the exemption available on transition to FRS 102 for business combinations occurring prior to the date of transition and has not sought to separately identify any other identifiable intangible assets that may have been separately recognised under FRS 102 but which were subsumed within goodwill under previous GAAP applied to business combinations. Amounts recognised as goodwill under previous GAAP, but which arise from transactions that do not meet the definition of a business combination under FRS 102, are treated as separately acquired intangible assets.

Goodwill:

Goodwill pertaining to businesses previously acquired, being the excess of the fair value of the purchase price over the fair value of net assets acquired, is accumulated and amortised over the directors' estimate of the life of the goodwill, not exceeding 20 years. Goodwill pertaining to businesses acquired after the end of the previous accounting period (1 July 2015 onwards) is accumulated and amortised over the directors' estimate of the life of the goodwill, not exceeding 10 years.

Impairment of non-financial assets

At each balance sheet date non-financial assets are assessed to determine whether there is an indication that the asset may be impaired. If there is such an indication the recoverable amount of the asset is compared to the carrying amount of the asset.

The recoverable amount of the asset is the higher of the fair value less costs to sell and value in use. Value in use is defined as the present value of the future cash flows before interest and tax obtainable as a result of the asset's continued use. These cash flows are discounted using a pre-tax discount rate that represents the current market risk-free rate and the risks inherent in the asset. If the recoverable amount of the asset is estimated to be lower than the carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised in the income statement.

Goodwill is allocated on acquisition to the cash generating unit expected to benefit from the synergies of the combination. Goodwill is included in the carrying value of cash generating units for impairment testing.

Intangible assets

Intangible assets previously acquired are accumulated and amortised over the directors' estimate of the life of the assets, not exceeding 20 years. Intangible assets acquired after the end of the previous accounting period (1 July 2015 onwards) is accumulated and amortised over the directors' estimate of the life of the assets, not exceeding 10 years.

**Notes to the Financial Statements - continued
for the Year Ended 30 June 2017**

4. ACCOUNTING POLICIES - continued

Tangible assets and depreciation

Tangible fixed assets are shown at cost less accumulated depreciation.

Depreciation is calculated to write off the cost of fixed assets on a straight-line basis over the expected useful lives of the assets concerned. The principal annual rates used for this purpose, which are consistent with those of the previous year are:

Freehold buildings	1%-2.5%, improvements 5%-10%
Leasehold land and buildings	2%-2.5% or over the term of the lease whichever is shorter
Plant and equipment	10%-30%

Freehold land is not depreciated.

Investments in subsidiaries

Investments in subsidiary undertakings are recognised at cost less any provision for impairment.

Taxation

Taxation for the year comprises current and deferred tax. Tax is recognised in the Income Statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity.

Current or deferred taxation assets and liabilities are not discounted.

Current tax is recognised at the amount of tax payable using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date.

Timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements. Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the year end and that are expected to apply to the reversal of the timing difference.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Research and development

Costs associated with research and development are expensed in the income statement in the period in which they arise.

Foreign currencies

The Company's functional and presentation currency is the pound sterling.

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing on that date. Resulting differences on foreign exchange are charged or credited to the income statement and included within administrative expenses.

Operating leases

Annual rentals in relation to operating leases are charged to the income statement on a straight-line basis over the lease term.

**Notes to the Financial Statements - continued
for the Year Ended 30 June 2017**

4. ACCOUNTING POLICIES - continued

Pension costs and other post-retirement benefits

For defined benefit schemes the amounts charged to operating profit are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest cost and the expected return on assets are shown as a net amount of other finance costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total comprehensive income.

Defined benefit schemes are funded, with the assets of the scheme held separately from those of the company, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability, net of the related deferred tax, is presented separately after other net assets on the face of the balance sheet.

For defined contribution schemes the amount charged to the income statement in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Going concern

Parker Hannifin Corporation, the ultimate parent undertaking, has undertaken to provide the funds necessary for the company to continue as a going concern for a minimum of twelve months from the date of approval of the financial statements. Having made enquiries of Parker Hannifin Corporation, the directors are satisfied that it has sufficient resources to continue to make these funds available. On this basis, the directors consider it is appropriate to prepare the financial statements on a going concern basis.

The balance sheet shows a status of net assets as at 30 June 2017 of £203,582,000 (30 June 2016: net assets of £191,694,000) and net current assets of £25,799,000 (30 June 2016: Net current asset of £36,416,000). The company made a profit after tax of £7,834,000 (2016: profit after tax of £5,797,000).

Financial instruments

The Company has chosen to apply section 11 of FRS 102 in respect of financial instruments.

Basic financial assets, including trade debtors, amounts owed by group undertakings, cash and cash equivalents, and other debtors are initially recognised at transaction price, and subsequently at amortised cost using the effective interest method.

At the end of the reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment, and an impairment loss is recognised in the income statement if required.

Basic financial liabilities, including trade creditors, amounts owed to group undertakings, and accruals are recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest. Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

If a financial arrangement constitutes a financing transaction, such as an interest bearing long term loan, the transaction is initially measured at the present value of future receipts or payables discounted at a market rate of interest at inception of the arrangement. Subsequent to initial recognition the transaction is measured at amortised cost using the effective interest rate method.

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

**Notes to the Financial Statements - continued
for the Year Ended 30 June 2017**

4. ACCOUNTING POLICIES - continued

Share based payments

The company's employees participate in stock incentive plans operated by Parker Hannifin Corporation, the ultimate parent undertaking. All share based payments are equity settled and are measured at fair value at the date of grant. A charge is made to administrative expenses to reflect the calculated fair value of employee options granted over and above the exercisable price paid by the employees. This charge is calculated at the date of the grant of the options and is charged equally over the vesting period. The credit entry is reported directly to reserves as a capital contribution from the ultimate parent undertaking.

The fair value of share based payments is determined by using the Black Scholes option pricing model.

5. TURNOVER

The turnover and profit before taxation are attributable to the one principal activity of the company.

All turnover and profits and losses were derived from continuing activities.

All turnover is from transactions with Parker Hannifin EMEA Sarl, a fellow group company based in Switzerland. A geographical analysis of turnover is therefore not required.

6. EMPLOYEES AND DIRECTORS

	30.6.17	30.6.16
	£'000	£'000
Wages and salaries	59,079	61,453
Social security costs	6,885	6,338
Other pension costs	<u>12,024</u>	<u>12,032</u>
	<u>77,988</u>	<u>79,823</u>

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

	30.6.17	30.6.16
Production	668	690
Administration	<u>826</u>	<u>840</u>
	<u>1,494</u>	<u>1,530</u>

Average staff numbers for the prior year have been amended to remove temporary contract employees, for consistency of presentation.

Included within staff costs are termination payments of £2,018,000 (2016: £3,192,000).

7. DIRECTORS' EMOLUMENTS

	30.6.17	30.6.16
	£	£
Directors' remuneration	1,328,394	1,002,527
Directors' pension contributions to money purchase schemes	<u>152,606</u>	<u>145,448</u>

**Notes to the Financial Statements - continued
for the Year Ended 30 June 2017**

7. DIRECTORS' EMOLUMENTS - continued

The number of directors to whom retirement benefits were accruing was as follows:

Money purchase schemes	<u>6</u>	<u>5</u>
------------------------	----------	----------

Four directors exercised share options during the year (2016 - one director).

Seven directors received shares under long term incentive schemes (2016 - five directors).

Information regarding the highest paid director is as follows:

	30.6.17	30.6.16
	£	£
Emoluments etc	328,837	209,956
Pension contributions to money purchase schemes	<u>21,288</u>	<u>28,140</u>

8. OPERATING PROFIT

The operating profit is stated after charging/(crediting):

	30.6.17	30.6.16
	£'000	£'000
Hire of plant and machinery	2,106	2,484
Depreciation - owned assets	5,893	5,273
Goodwill amortisation	7,671	6,748
Patents and trademarks amortisation	2,122	2,040
Other intangibles amortisation	799	798
Negative goodwill amortisation	-	(12)
Auditor's remuneration - audit of the company's financial statements	86	86
Auditor's remuneration - tax services	178	199
Research and development costs	5,276	8,307
Foreign exchange gain	<u>514</u>	<u>215</u>

Audit fees of £116,000 (2016: £116,000) related to other group companies in the United Kingdom have been paid by the company and have not been recharged.

**9. INCOME FROM FIXED ASSET INVESTMENTS - NET DIVIDENDS
FROM SUBSIDIARY UNDERTAKINGS**

During the previous year the company received pre-liquidation dividends from two subsidiary companies and, as a result, wrote down the book value of the investments in those companies. The gross dividends received and subsequent write-down are as follows:

	30.06.17	30.06.16
	£ '000	£ '000
Gross dividends received	-	24,655
Investment write-down	<u>-</u>	<u>(23,335)</u>
Net dividends from subsidiary undertakings	<u><u>-</u></u>	<u><u>1,320</u></u>

Notes to the Financial Statements - continued
for the Year Ended 30 June 2017

10. INTEREST RECEIVABLE AND SIMILAR INCOME

	30.6.17	30.6.16
	£'000	£'000
On bank deposits	183	492
On amounts owed by group undertakings	<u>1,404</u>	<u>65</u>
	<u>1,587</u>	<u>557</u>

11. IMPAIRMENT OF FIXED ASSET INVESTMENTS

	30.6.17	30.6.16
	£'000	£'000
Impairment of fixed asset investments	<u>1,660</u>	<u>-</u>

At 30 June 2017, the directors considered the carrying value of investments as compared to the value of the underlying individual entities. This led to an impairment provision of £1,660,000 (2016: £Nil).

12. INTEREST PAYABLE AND SIMILAR EXPENSES

	30.6.17	30.6.16
	£'000	£'000
On amounts owed to group undertakings	141	4,756
Bank interest	-	5
Other interest	<u>45</u>	<u>33</u>
	<u>186</u>	<u>4,794</u>

13. TAXATION

Analysis of the tax charge

The tax charge on the profit for the year was as follows:

	30.6.17	30.6.16
	£'000	£'000
Current tax:		
UK corporation tax	2,503	1,603
Adjustments in respect of previous periods	1,087	-
Foreign withholding tax	<u>383</u>	<u>472</u>
Total current tax	<u>3,973</u>	<u>2,075</u>
Deferred tax:		
Origination and reversal of timing differences	295	346
Changes in tax rates	<u>602</u>	<u>-</u>
Total deferred tax	<u>897</u>	<u>346</u>
Tax on profit	<u>4,870</u>	<u>2,421</u>

Notes to the Financial Statements - continued
for the Year Ended 30 June 2017

13. TAXATION - continued

Reconciliation of total tax charge included in profit and loss

The tax assessed for the year is higher than the standard rate of corporation tax in the UK. The difference is explained below:

	30.6.17 £'000	30.6.16 £'000
Profit before tax	<u>12,705</u>	<u>8,218</u>
Profit multiplied by the standard rate of corporation tax in the UK of 19.750% (2016 - 19.996%)	2,509	1,643
Effects of:		
Expenses not deductible for tax purposes	2,536	2,277
Income not taxable	-	(264)
Transfer pricing adjustment	(1,559)	(1,616)
Changes in tax rates	602	-
Research and development relief	-	(91)
Foreign withholding tax	383	472
Prior year underprovision	<u>399</u>	<u>-</u>
Total tax charge	<u>4,870</u>	<u>2,421</u>

Tax effects relating to effects of other comprehensive income

	30.6.17		
	Gross £'000	Tax £'000	Net £'000
Actuarial gain/(loss) on pension scheme	<u>3,600</u>	<u>(684)</u>	<u>2,916</u>
	<u>3,600</u>	<u>(684)</u>	<u>2,916</u>

	30.6.16		
	Gross £'000	Tax £'000	Net £'000
Actuarial loss on pension scheme	<u>(20,200)</u>	<u>4,040</u>	<u>(16,160)</u>
	<u>(20,200)</u>	<u>4,040</u>	<u>(16,160)</u>

Reductions in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013, and remain at 20% (effective from 1 April 2016) as enacted on 25 March 2015. Further reductions to 19% (from 1 April 2017) and to 18% (from 1 April 2020) were substantively enacted on 18 November 2015. In the Budget on 16 March 2016, the Chancellor announced additional planned reductions to 17% (from 1 April 2020, replacing the 18% already substantively enacted from this date). This will reduce the company's future current tax charge accordingly.

The deferred tax asset at 30 June 2017 has been calculated based on the rate of 19% (at 30 June 2016: 20%), which is the substantively enacted rate at the balance sheet date which the majority of timing differences are expected to reverse.

It has not yet been possible to quantify the full anticipated effect of the announced further rate reductions, although this will further reduce the company's future current tax charge and reduce the company's deferred tax asset accordingly.

Notes to the Financial Statements - continued
for the Year Ended 30 June 2017

14. INTANGIBLE FIXED ASSETS

	Goodwill £'000	Patents and trademarks £'000	Other intangibles £'000	Negative goodwill £'000	Totals £'000
COST					
At 1 July 2016	233,694	40,680	25,645	(388)	299,631
Additions	<u>7,928</u>	<u>473</u>	<u>-</u>	<u>-</u>	<u>8,401</u>
At 30 June 2017	<u>241,622</u>	<u>41,153</u>	<u>25,645</u>	<u>(388)</u>	<u>308,032</u>
AMORTISATION					
At 1 July 2016	172,914	18,734	17,598	(388)	208,858
Amortisation for year	<u>7,671</u>	<u>2,122</u>	<u>799</u>	<u>-</u>	<u>10,592</u>
At 30 June 2017	<u>180,585</u>	<u>20,856</u>	<u>18,397</u>	<u>(388)</u>	<u>219,450</u>
NET BOOK VALUE					
At 30 June 2017	<u>61,037</u>	<u>20,297</u>	<u>7,248</u>	<u>-</u>	<u>88,582</u>
At 30 June 2016	<u>60,780</u>	<u>21,946</u>	<u>8,047</u>	<u>-</u>	<u>90,773</u>

At 30 June 2017, the directors performed a review of internal and external indicators to ascertain whether assets needed to be assessed for impairment. Following the review it was concluded that no indicators of impairment existed.

15. TANGIBLE FIXED ASSETS

	Freehold land and buildings £'000	Short leasehold land and buildings £'000	Long leasehold land and buildings £'000	Plant and equipment £'000	Totals £'000
COST					
At 1 July 2016	24,135	2,154	642	15,882	42,813
Additions	52	140	-	3,892	4,084
Disposals	-	-	(455)	(2,544)	(2,999)
Reclassification	<u>-</u>	<u>2,121</u>	<u>-</u>	<u>(1,798)</u>	<u>323</u>
At 30 June 2017	<u>24,187</u>	<u>4,415</u>	<u>187</u>	<u>15,432</u>	<u>44,221</u>
DEPRECIATION					
At 1 July 2016	6,427	1,857	240	4,164	12,688
Charge for year	624	584	129	4,556	5,893
Disposals	-	-	(412)	(1,943)	(2,355)
Reclassification	<u>-</u>	<u>1,427</u>	<u>-</u>	<u>(1,104)</u>	<u>323</u>
At 30 June 2017	<u>7,051</u>	<u>3,868</u>	<u>(43)</u>	<u>5,673</u>	<u>16,549</u>
NET BOOK VALUE					
At 30 June 2017	<u>17,136</u>	<u>547</u>	<u>230</u>	<u>9,759</u>	<u>27,672</u>
At 30 June 2016	<u>17,708</u>	<u>297</u>	<u>402</u>	<u>11,718</u>	<u>30,125</u>

Included within freehold land and buildings is land with a cost of £3,562,000 (30 June 2016: £3,562,000) which is not depreciated.

Notes to the Financial Statements - continued
for the Year Ended 30 June 2017

16. FIXED ASSET INVESTMENTS

	Subsidiary undertakings £'000
COST	
At 1 July 2016	440,306
Additions	<u>19,775</u>
At 30 June 2017	<u>460,081</u>
PROVISIONS	
At 1 July 2016	329,872
Provision for year	<u>1,659</u>
At 30 June 2017	<u>331,531</u>
NET BOOK VALUE	
At 30 June 2017	<u>128,550</u>
At 30 June 2016	<u>110,434</u>

At 30 June 2017, the directors considered the carrying value of investments as compared to the value of the underlying individual entities. This led to an impairment provision of £1,660,000 (2016: £Nil).

At 30 June 2017, the company held shares in the allotted share capital of the following companies:

	Country of registration and operation	Percentage held	Nature of business
* Indirectly held			
Parker Hannifin Pension Trustees Limited	England	100%	Dormant
Commercial Intertech Limited	England	100%	Dormant
SSD Drives Limited	England	100%	Dormant
Kenmore UK Limited	England	100%	Dormant
Virginia KMP Limited	England	100%	In liquidation
Tecknit Europe Limited	England	100%	Dormant
			Intermediate
domnick hunter Group Limited	England	100%	holding company
* domnick hunter Limited	England	100%	Dormant
* domnick hunter Fabrication Limited	England	100%	Dormant
			Intermediate
* domnick hunter Investments Limited	Scotland	100%	holding company
* Tanlea Engineering Limited	England	100%	Dormant
Vansco Electronics (UK) Limited	England	100%	Dormant
Kittiwake Developments Limited	England	100	Dormant
* Kittiwake Procal Limited	England	100	In liquidation
PpTek Limited	England	100	In liquidation
Olaer Fawcett Christie Limited	England	100	In liquidation
President Engineering Group Limited	England	100	Dormant

The registered office of all subsidiaries is Parker House, 55 Maylands Avenue, Hemel Hempstead, United Kingdom, HP2 4SJ.

**Notes to the Financial Statements - continued
for the Year Ended 30 June 2017**

17. DEBTORS

	30.6.17	30.6.16
	£'000	£'000
Amounts falling due within one year:		
Trade debtors	794	449
Amounts owed by group undertakings	121,933	71,266
Tax	874	886
Deferred tax asset	9,773	11,355
Prepayments and accrued income	5,842	6,037
	<u>139,216</u>	<u>89,993</u>
Amounts falling due after more than one year:		
Amounts owed by group undertakings	<u>120,000</u>	-
Aggregate amounts	<u>259,216</u>	<u>89,993</u>
Deferred tax asset		
	30.6.17	30.6.16
	£'000	£'000
Accelerated capital allowances	2,500	1,904
Pension	12,641	15,113
Other short term timing differences	(52)	(52)
Share options	658	678
Fair value adjustments	<u>(5,974)</u>	<u>(6,288)</u>
	<u>9,773</u>	<u>11,355</u>

Notes to the Financial Statements - continued
for the Year Ended 30 June 2017

17. DEBTORS - continued

Included within amounts owed by group undertakings, in amounts falling due within one year, are the following loan receivables:

Principal Balance	Maturity date	Interest rate	Accrued interest
£6,038,012	29 June 2018	1.18%	£195.25

Other amounts owed to group undertakings are unsecured, interest free and repayable on demand.

The entire amount shown under debtors falling due after more than one year is comprised of a loan receivable from Parker Hannifin (Gibraltar) Holding Limited. This loan is repayable on 21 February 2022 and attracts interest at a rate of 3.11%.

Deferred tax asset:

	£'000
Balance at start of year	11,355
Charge to profit and loss account during year	(898)
Arising on actuarial gain	(684)
	<hr/>
Balance at end of year	9,773

Deferred tax assets have been recognised as the company foresees it has sufficient future taxable profits against which the assets can be utilised.

A deferred tax asset in respect of losses amounting to £29,309,000 (2016: £29,309,000) has not been provided due to the uncertainty regarding the timing of the recoverability of the asset.

The amount of the deferred tax asset which will reverse in the period immediately following the reporting period cannot be reliably estimated, as the majority of the asset relates to movements on the pension liability and this information is not available until the end of that period.

18. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	30.6.17	30.6.16
	£'000	£'000
Trade creditors	8,045	8,523
Amounts owed to group undertakings	227,694	180,968
Social security and other taxes	2,426	3,221
Accruals and deferred income	4,076	5,756
	<hr/>	<hr/>
	242,241	198,468

Included within amounts owed to group undertakings are the following loan payables:

Principal Balance	Maturity date	Interest rate	Accrued interest
£19,048,001	On demand	0.75%	£6,138
\$357,335	On demand	1.58%	\$734
€519,111	On demand	0.15%	€78
£74,228	28 March 2018	0.62%	£120
£12,109,167	On demand	0.15%	74,064
£5,276,595	28 March 2018	0.62%	8,512

Other amounts owed to group undertakings are unsecured, interest free and repayable on demand.

**Notes to the Financial Statements - continued
for the Year Ended 30 June 2017**

19. LEASING AGREEMENTS

Minimum lease payments under non-cancellable operating leases fall due as follows:

	30.6.17	30.6.16
	£'000	£'000
Within one year	2,690	3,433
Between one and five years	7,724	7,972
In more than five years	<u>7,243</u>	<u>6,507</u>
	<u>17,657</u>	<u>17,912</u>

20. PROVISIONS FOR LIABILITIES

Dilapidations provision

	£'000
Balance at 1 July 2016	490
Charge/(credit) to income statement	-
Balance at 30 June 2017	<u>490</u>

The dilapidations provision estimates the cost to restore to its original state the property to which it applies. The expected timing of the resulting payments is September 2018.

21. CALLED UP SHARE CAPITAL

Allotted, issued and fully paid:			30.6.17	30.6.16
Number:	Class:	Nominal value:	£'000	£'000
268,462,585	Ordinary	£1	<u>268,463</u>	<u>268,463</u>

22. RESERVES

Share premium account

The reserve records the amount above the nominal value received for shares issued, less transaction costs if applicable. During the year the entire share premium was cancelled and credited to retained earnings as part of a capital reduction exercise.

Capital contribution reserve

This balance represents the value of assets contributed by the parent company.

Share option reserve

This reserve records the value of Parker Hannifin Corporation share incentive plans, relative to employees of the company, in the period between grant date and the vesting date.

**Notes to the Financial Statements - continued
for the Year Ended 30 June 2017**

23. EMPLOYEE BENEFIT OBLIGATIONS

The company's main defined benefit pension arrangement in the UK is the Parker Hannifin Pension and Death Benefit Plan (the "Parker Plan"), which provides benefits on a defined benefit basis. On 30 June 2004, the Parker Plan was closed to new employees, however benefits continue to accrue for existing members. The company also operates another closed defined benefit scheme under which benefits cease to accrue: The Commercial Hydraulics Kontak Limited Pension and Life Assurance Scheme (the "Kontak Staff Plan"). The company also operates a defined contribution scheme.

During the year, the company made a special contribution of £6.4 million (30 June 2016: £6.4 million). The company's current contribution rate to the Parker Plan is 17.2% (30 June 2016: 17.2%) of pensionable pay. The company contributed £13.4 million (30 June 2016: £9.7 million) in total to the Parker Plan during the year which includes the special contribution of £6.4 million (30 June 2016: £6.4 million).

For the purpose of FRS102, the disclosures below set out the valuations as at 30 June 2017 of the defined benefit section of the Parker Plan and of the closed Kontak Staff Plan. The valuation has been made under the Projected Unit Credit actuarial method to assess the Plans' liabilities. The most recent assessment of the Parker Plan's financial position was carried out as at 30 June 2014 and the most recent formal valuation of the Kontak Staff Plan was carried out on 6 April 2013. These assessments have been updated to 30 June 2017 by qualified actuaries who are independent of the company.

The Commercial Intertech Limited Retirement Benefits Plan and the Ultra Group Pension Scheme were merged into the Parker Plan on 3 July 2003 and historic figures in respect of these arrangements are included in the disclosures. Historic figures are also included in respect of the Kontak Works Plan which was wound up and members' benefits secured with an insurance company with effect from 30 June 2004.

The Parker Plan closed to new members on 30 June 2004 and so the service cost is expected to increase as the members approach their retirements.

The amounts recognised in the balance sheet are as follows:

	Defined benefit pension plans	
	30.6.17	30.6.16
	£'000	£'000
Present value of funded obligations	(410,995)	(383,895)
Fair value of plan assets	<u>344,464</u>	<u>308,331</u>
	(66,531)	(75,564)
Present value of unfunded obligations	-	-
Deficit	<u>(66,531)</u>	<u>(75,564)</u>
Net liability	<u>(66,531)</u>	<u>(75,564)</u>

**Notes to the Financial Statements - continued
for the Year Ended 30 June 2017**

23. EMPLOYEE BENEFIT OBLIGATIONS - continued

The amounts recognised in profit or loss are as follows:

	Defined benefit pension plans	
	30.6.17	30.6.16
	£'000	£'000
Current service cost	5,000	5,000
Net interest from net defined benefit asset/liability	1,700	2,000
Past service cost	-	-
Administrative expense	<u>1,300</u>	<u>1,200</u>
	<u>8,000</u>	<u>8,200</u>
 Actual return on scheme assets	 <u>38,400</u>	 <u>28,100</u>

The cumulative amount of actuarial losses recognised in the financial statements is £140.2 million (30 June 2016: £143.8 million).

Changes in the present value of the defined benefit obligation are as follows:

	Defined benefit pension plans	
	30.6.17	30.6.16
	£'000	£'000
Opening present value of scheme liabilities	383,895	344,895
Current service cost	5,000	5,000
Contributions paid	100	200
Interest on pension scheme liabilities	9,400	12,900
Actuarial loss	27,100	37,400
Benefits paid	<u>(14,500)</u>	<u>(16,500)</u>
	<u>410,995</u>	<u>383,895</u>

Changes in the fair value of scheme assets are as follows:

	Defined benefit pension plans	
	30.6.17	30.6.16
	£'000	£'000
Opening fair value of scheme assets	308,331	287,931
Contributions paid	13,533	9,900
Interest income	7,700	10,900
Actuarial gain	30,700	17,200
Benefits paid	<u>(15,800)</u>	<u>(17,600)</u>
	<u>344,464</u>	<u>308,331</u>

Notes to the Financial Statements - continued
for the Year Ended 30 June 2017

23. EMPLOYEE BENEFIT OBLIGATIONS - continued

The amounts recognised in other comprehensive income are as follows:

	Defined benefit pension plans	
	30.6.17 £'000	30.6.16 £'000
Actual return less expected return on pension scheme assets	30,700	17,200
Experience gains and losses arising on scheme liabilities	(27,100)	(37,400)
	<u>3,600</u>	<u>(20,200)</u>

The major categories of scheme assets as amounts of total scheme assets are as follows:

	Defined benefit pension plans	
	30.6.17 £'000	30.6.16 £'000
Equities	165,064	141,931
Bonds	98,600	90,900
Insurance contracts	2,000	1,800
Index linked gilts	76,300	71,200
Other	<u>2,500</u>	<u>2,500</u>
	<u>344,464</u>	<u>308,331</u>

The long term expected rate of return at 30 June 2017 was 5.9% (30 June 2016: 6.1%).

Principal actuarial assumptions at the balance sheet date (expressed as weighted averages):

	30.6.17	30.6.16
Discount rate	2.64%	2.80%
Rate of increase in salaries	3.20%	2.90%
Rate of increase in pensions in payment	3.10%	2.80%
CPI inflation	2.10%	1.80%
RPI inflation	3.20%	2.90%

The mortality assumptions are based on standard mortality tables which allow for expected future mortality improvements. The assumptions are that a member currently aged 65 will live on average for a further 22.0 years (30 June 2016: 22.1 years) if they are male, and for a further 23.7 years (30 June 2016: 23.9 years) if they are female.

**Notes to the Financial Statements - continued
for the Year Ended 30 June 2017**

The estimated amount to be charged to the income statement for the year ending 30 June 2018 (under FRS102) is as follows:

	£'000
Current service cost	4,700
Administration expense	1,400
Interest on pension scheme liabilities	1,400
Settlement cost	-
	<hr/>
	7,500
	<hr/>

The actual amount to be charged to the income statement for the next financial year is likely to be different from that estimated above. This may be due to changes to scheme benefits, settlement/curtailment events that are not yet known or actual scheme cash flows being different to expected cash flows. The estimated amount of contributions to the scheme for the next financial year is £18,200,000.

Defined contribution scheme

The cost of contributions made by the company to the defined contribution scheme amounted to £7,024,000 (30 June 2016: £6,375,000).

24. ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

The immediate parent undertaking is Parker Hannifin (GB) Limited, a company incorporated in the United Kingdom.

The ultimate parent undertaking and controlling party is Parker Hannifin Corporation, a company incorporated in the State of Ohio, United States of America. Parker Hannifin Corporation is the parent undertaking of the largest and smallest group to consolidate the company's financial statements and copies of its consolidated financial statements can be obtained from the company secretary, Parker Hannifin Corporation, 6035 Parkland Boulevard, Cleveland, Ohio, 44124-4141, United States of America.

Notes to the Financial Statements - continued
for the Year Ended 30 June 2017

25. EMPLOYEE SHARE SCHEMES

Share based payments

The company's ultimate parent undertaking, Parker Hannifin Corporation, has stock incentive plans that provide for the granting of nonqualified stock options and stock appreciation rights ("SAR"), restricted stock units ("RSU") and unrestricted stock to officers, directors and key employees of the group.

Stock options and stock appreciation rights

The nonqualified stock options allow the recipient to purchase shares of common stock at a price not less than 100% of the market value of the stock on the date options are granted. Upon exercise, SARs entitle the participant to receive shares of common stock equal to the increase in value of the award between the grant date and the exercise date. Outstanding options and SAR's are exercisable from one to three years after the date of grant and expire no more than ten years after grant.

The number and weighted average exercise prices of stock options are as follows:

	30.6.17	30.6.17	30.6.16	30.6.16
		Weighted		Weighted
	Number of	average	Number of	average
	options	exercise price	options	exercise price
		USD		USD
Outstanding at 1 July	154,081	79.46	164,560	73.91
Granted during the year	25,818	124.36	22,568	113.23
Cancelled during the year	(6,409)	120.53	(6,392)	111.93
Exercised during the year	(69,152)	73.35	(26,655)	65.99
Outstanding at 30 June	104,338	92.10	154,081	79.46
Exercisable at 30 June	65,052	75.63	114,362	68.13

The weighted average fair value of stock options granted in the year was US\$701,000 (30 June 2016: US\$597,000).

The stock options outstanding at 30 June 2017 have a weighted average exercise price of US\$92.10 (30 June 2016: US\$79.46) and a weighted average remaining contractual life of 5.5 years (30 June 2016: 4.7 years).

Restricted stock units

The RSU's constitute an agreement to deliver shares of common stock to the recipient at the end of a vesting period. The RSU's vest and the underlying stock is issued over a three year rateable vesting period. The fair value of each RSU award is based on the market value of the group's common stock on the date of grant. Unvested RSU's may not be transferred and do not have dividend or voting rights. For each unvested RSU, recipients are entitled to receive a dividend equivalent, payable in cash or common shares, equal to the cash dividend per share paid to common shareholders.

Notes to the Financial Statements - continued
for the Year Ended 30 June 2017

25. EMPLOYEE SHARE SCHEMES (continued)

The number and weighted average exercise prices of RSU's are as follows:

	30.6.17	30.6.17	30.6.16	30.6.16
	Number of	Weighted average grant date fair value	Number of	Weighted average grant date fair value
	RSU's	USD	RSU's	USD
Outstanding at 1 July	8,844	114.29	8,370	110.84
Granted during the year	5,268	124.36	4,350	113.23
Vested	(4,960)	115.12	(2,997)	103.79
Cancelled	(968)	120.18	(879)	112.07
Outstanding at 30 June	<u>8,184</u>	<u>119.57</u>	<u>8,844</u>	<u>114.28</u>

The weighted average fair value of RSU's granted in the year was US\$655,000 (30 June 2016: US\$493,000).

Long term incentive plans

The Company's Long Term Incentive Plans (LTIP) provide for the issuance of unrestricted stock to certain key employees based on the attainment of certain goals relating to the Company's revenue growth, earnings per share growth and return on invested capital during the three-year performance period. No dividends or dividend equivalents are paid on unearned shares.

The fair value of the LTIP award granted was based on the fair market value of the Company's common stock on the date of grant. A summary of the status and changes of shares relating to the LTIP and the related average price per share follows:

	30.6.17	30.6.17	30.6.16	30.6.16
	Number of	Weighted average grant date fair value	Number of	Weighted average grant date fair value
	shares	USD	shares	USD
Outstanding at 1 July	10,910	108.33	15,110	107.72
Granted during the year	3,000	149.52	3,270	86.51
Vested	(3,810)	114.00	(6,110)	93.05
Cancelled	(1,677)	102.13	(1,360)	117.70
Outstanding at 30 June	<u>8,423</u>	<u>121.67</u>	<u>10,910</u>	<u>108.33</u>

During 2017, 4,254 unrestricted shares were issued with a total fair value at the date of issuance of \$668,176. During 2017, 2016 and 2015, the Company recorded stock-based compensation expense of \$180,476, \$160,378 and \$667,279, respectively relating to the LTIP.

The fair values for the significant stock-based awards granted in 2017 and 2016 were estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions:

	30.6.17	30.6.16
Weighted average fair value	US\$27.17	US\$26.88
Expected volatility	28.7%	28.7%
Expected option life	5.1 years	5.34 years
Expected dividends	2.0%	1.9%
Risk free interest rate	<u>1.4%</u>	<u>1.9%</u>

Notes to the Financial Statements - continued
for the Year Ended 30 June 2017

25. EMPLOYEE SHARE SCHEMES (continued)

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options). Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

The total expenses recognised for the year arising from share based payments are as follows:

	30.6.17	30.6.16
	£'000	£'000
Stock options and stock appreciation rights	513	543
Restricted stock units	487	397
Long term incentive plans	139	120
	<u>1,139</u>	<u>1,060</u>

26. ACQUISITIONS

On 4 July 2016, the company acquired the manufacturing trade and assets of President Engineering Group Limited at market value for a consideration of £12,950,000. The consideration for this transaction comprised of intercompany debt.

The aggregate fair values of the assets and liabilities at the date of acquisition were as follows:

	£ '000 Book Value	£ '000 Fair Value Uplift	£ '000 Fair Value
Tangible fixed assets	1,151	427	1,578
Intangible fixed assets	-	473	473
Prepayments	333	-	333
Debtors - Third party	3,648	-	3,648
Cash	254	-	254
Creditors	(940)	-	(940)
Accruals	(324)	-	(324)
Net assets acquired	4,122	900	5,022
Goodwill (Note 14)			7,928
Consideration - Current debt			<u>12,950</u>

The operations of the acquisition above have been amalgamated with the company to such an extent that it is not possible to determine the amounts of revenue and profit or loss attributable to these since the acquisition date.