

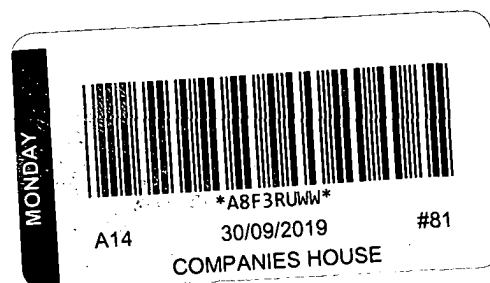
SMS Group Technical Services (UK) Limited

Annual Report and Financial Statements

Year Ended

31 December 2018

Company Number 06765353



SMS Group Technical Services (UK) Limited

Company Information

| | |
|----------------------------|---|
| Directors | J Kahlen S D Lidgate D Jeffrey |
| Registered number | 06765353 |
| Registered office | Units 40-41 The Bridge Business Centre Beresford Way Chesterfield Derbyshire S41 9FG |
| Independent auditor | BDO LLP Central Square 29 Wellington Street Leeds LS1 4DL |

SMS Group Technical Services (UK) Limited

Contents

| | Page |
|---------------------------------------|---------|
| Strategic Report | 1 |
| Directors' Report | 2 |
| Directors' Responsibilities Statement | 4 |
| Independent Auditor's Report | 5 - 7 |
| Statement of Comprehensive Income | 8 |
| Statement of Financial Position | 9 |
| Statement of Changes in Equity | 10 |
| Notes to the Financial Statements | 11 - 24 |

SMS Group Technical Services (UK) Limited

Strategic Report For the Year Ended 31 December 2018

The directors present their strategic report together with the audited financial statements for the year ended 31 December 2018.

Business review

The statement of comprehensive income shows a turnover for the year of £8,317,779, compared with £13,122,877 in 2017. This reduction is mainly attributable to the repair and maintenance business and subsequent level of completeness of major contracts and without new contract being brought into force.

The overall result for 2018 is a loss of £2,742,415. The company plans to turn around this loss position and had taken steps in 2018, one major step being their announcement for the closure of its Poole office.

It is planned that the Poole office will be closed by latest first quarter of 2019, however the majority of employees will have left the company by the end of September 2019, leaving a few employees assisting with the close out of existing contracts.

The net current liabilities of the company increased to £9,321,542 and a capital contribution of £2,800,000 was made during the prior year by the ultimate parent company SMS Group GmbH, and a letter of support giving written evidence that it will support SMS group Technical Services UK for at least a period of 12 months from the date of approval and signing of the accounts.

Financial key performance indicators

The company closely monitors its gross margins against each product group to ensure that adequate margins are maintained.

The company also monitors cash flow as part of its day-to-day control procedures. The board ensure that appropriate facilities are available to be drawn upon when necessary.

Other key performance indicators

The company incorporate numerous quantitative measures within its daily working practices to monitor and improve the company's performance.

Principal risks and uncertainties

The global metals processing industry remains a highly competitive and cyclical business, continued consolidation of our customers and rationalisation of the installed equipment base is a potential risk to the service business. Uncertainties remain over the final position of the UK and its trading relationship with the EU, which historically has accounted for approximately 40% of the UK's sales. This could potentially apply pressure on margins for the UK (30% of sales) and rest of the world (30% of sales) business where goods and services are sourced from within the EU. Extending further, global uncertainty regarding tariffs and trade threaten the current relative stability of the metals processing industry in the short to medium term.

This report was approved by the board on *25th September 19* and signed on its behalf.



S D Lidgate
Director

SMS Group Technical Services (UK) Limited

Directors' Report For the Year Ended 31 December 2018

The directors present their report together with the audited financial statements for the year ended 31 December 2018.

Principal activities

The company's principal activities include engineering of rod and bar mill equipment, project management and project execution of retrofit enhancements.

The company also provides technical services for rod and bar mills, rolling mill guides and spare parts.

Business review

The business review, principal risks and uncertainties and future developments are included in the strategic report on page 1 of these financial statements.

The company had net current liabilities of £9,326k at 31 December 2018 and incurred a loss after tax of £2,742k for the year then ended. The directors of the ultimate parent company have provided a formal confirmation to the directors of the company that the ultimate parent company will provide any funding required by the company to enable it to continue trading and meet its liabilities as they fall due for payment for at least 12 months from the date of signing these financial statements.

Results and dividends

The loss for the year, after taxation, amounted to £2,742,415 (2017 - loss £3,500,212).

A dividend of £Nil (2017 - £Nil) was paid during the year.

Directors

The directors who served during the year were:

J Kahlen
S D Lidgate (appointed 5 January 2018)
D Jeffrey (appointed 20 August 2018)
H Nieheus (resigned 1 December 2018)

Disclosure of information to auditor

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

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

Auditor

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

SMS Group Technical Services (UK) Limited

Directors' Report (continued)
For the Year Ended 31 December 2018

This report was approved by the board on *25th SEPTEMBER 19* and signed on its behalf.

A handwritten signature in black ink, appearing to read 'S. Lidgate', written over a horizontal line.

S D Lidgate
Director

SMS Group Technical Services (UK) Limited

Directors' Responsibilities Statement For the Year Ended 31 December 2018

The directors are responsible for preparing the strategic report, the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements 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). 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;
- 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.

SMS Group Technical Services (UK) Limited

Independent Auditor's Report to the Members of SMS Group Technical Services (UK) Limited

Opinion

We have audited the financial statements of SMS Group Technical Services (UK) Limited ("the company") for the year ended 31 December 2018 which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 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 state 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. 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.

SMS Group Technical Services (UK) Limited

Independent Auditor's Report to the Members of SMS Group Technical Services (UK) Limited (continued)

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 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 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 and 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.

SMS Group Technical Services (UK) Limited

Independent Auditor's Report to the Members of SMS Group Technical Services (UK) Limited (continued)

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: <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.

BDO LLP

Mark Langford (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
Leeds
United Kingdom
27 SEPTEMBER 2019

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

SMS Group Technical Services (UK) Limited

Statement of Comprehensive Income For the Year Ended 31 December 2018

| | Note | 2018 £ | 2017 £ |
|--|------|--------------------|--------------------|
| Turnover | 4 | 8,317,779 | 13,122,877 |
| Cost of sales | | (7,738,181) | (14,007,260) |
| Gross profit/(loss) | | 579,598 | (884,383) |
| Administrative expenses | | (2,167,847) | (2,616,313) |
| Exceptional administrative expenses | 5 | (1,139,809) | - |
| Other operating income | 6 | 74,257 | 69,747 |
| Operating loss | 7 | (2,653,801) | (3,430,949) |
| Interest payable and similar charges | 10 | (88,614) | (69,263) |
| Loss before tax | | (2,742,415) | (3,500,212) |
| Tax on loss | 11 | - | - |
| Loss for the financial year | | (2,742,415) | (3,500,212) |
| Other comprehensive income for the year | | - | - |
| Total comprehensive loss for the year | | (2,742,415) | (3,500,212) |

The notes on pages 11 to 24 form part of these financial statements.

SMS Group Technical Services (UK) Limited

Registered number: 06765353

Statement of Financial Position As at 31 December 2018

| | Note | 2018 £ | 2018 £ | 2017 Restated £ | 2017 Restated £ |
|--|------|-------------------|--------------------|-----------------------|-----------------------|
| Fixed assets | | | | | |
| Tangible assets | 12 | | 31,293 | | 52,850 |
| Current assets | | | | | |
| Stocks | 13 | 2,409,119 | | 2,150,689 | |
| Debtors: amounts falling due within one year | 14 | 6,259,150 | | 7,451,784 | |
| Cash at bank and in hand | | 2,227,527 | | 1,993,294 | |
| | | <u>10,895,796</u> | | <u>11,595,767</u> | |
| Creditors: amounts falling due within one year | 15 | (12,807,198) | | (12,562,958) | |
| Net current liabilities | | | (1,911,402) | | (967,191) |
| Total assets less current liabilities | | | <u>(1,880,109)</u> | | <u>(914,341)</u> |
| Provisions for liabilities | | | | | |
| Other provisions | 16 | | (7,441,433) | | (5,664,786) |
| Net liabilities | | | <u>(9,321,542)</u> | | <u>(6,579,127)</u> |
| Capital and reserves | | | | | |
| Called up share capital | 17 | | 1,400,001 | | 1,400,001 |
| Capital contribution reserve | 18 | | 2,800,000 | | 2,800,000 |
| Profit and loss account | 18 | | (13,521,543) | | (10,779,128) |
| Total equity | | | <u>(9,321,542)</u> | | <u>(6,579,127)</u> |

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



S D Lidgate
Director

25th September 2019

The notes on pages 11 to 24 form part of these financial statements.

SMS Group Technical Services (UK) Limited

Statement of Changes in Equity For the Year Ended 31 December 2018

| | Called up share capital | Capital contribution reserve | Profit and loss account | Total equity |
|---|----------------------------|------------------------------------|----------------------------|--------------------|
| | £ | £ | £ | £ |
| At 1 January 2018 | 1,400,001 | 2,800,000 | (10,779,128) | (6,579,127) |
| Comprehensive income for the year | | | | |
| Loss for the year | - | - | (2,742,415) | (2,742,415) |
| Total comprehensive loss for the year | - | - | (2,742,415) | (2,742,415) |
| Contributions by and distributions to owners | | | | |
| At 31 December 2018 | 1,400,001 | 2,800,000 | (13,521,543) | (9,321,542) |

Statement of Changes in Equity For the Year Ended 31 December 2017

| | Called up share capital | Capital contribution reserve | Profit and loss account | Total equity |
|---|----------------------------|------------------------------------|----------------------------|--------------------|
| | £ | £ | £ | £ |
| At 1 January 2017 | 1,400,001 | - | (7,278,916) | (5,878,915) |
| Comprehensive income for the year | | | | |
| Loss for the year | - | - | (3,500,212) | (3,500,212) |
| Total comprehensive loss for the year | - | - | (3,500,212) | (3,500,212) |
| Contributions by and distributions to owners | | | | |
| Capital contribution in the year | - | 2,800,000 | - | 2,800,000 |
| Total transactions with owners | - | 2,800,000 | - | 2,800,000 |
| At 31 December 2017 | 1,400,001 | 2,800,000 | (10,779,128) | (6,579,127) |

The notes on pages 11 to 24 form part of these financial statements.

SMS Group Technical Services (UK) Limited

Notes to the Financial Statements For the Year Ended 31 December 2018

1. General information

SMS Group Technical Services (UK) Limited is a private company limited by shares and incorporated in England and Wales under the Companies Act 2006. The address of the registered office is given on the company information page and the nature of the company's operations and its principal activities are set out in the directors' report.

2. Accounting policies

2.1 Basis of preparation of financial statements

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

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

The presentational and functional currency of these financial statements is GBP. Values are rounded to the nearest pound.

The following principal accounting policies have been applied:

2.2 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 the FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- the requirements of Section 4 Statement of Financial Position paragraph 4.12(a)(iv);
- the requirements of Section 7 Statement of Cash Flows;
- the requirements of Section 3 Financial Statement Presentation paragraph 3.17(d);
- the requirements of Section 11 Financial Instruments paragraphs 11.41(b), 11.41(c), 11.41(e), 11.41(f), 11.42, 11.44 to 11.45, 11.47, 11.48(a)(iii), 11.48(a)(iv), 11.48(b) and 11.48(c);
- the requirements of Section 12 Other Financial Instruments paragraphs 12.26 to 12.27, 12.29(a), 12.29(b) and 12.29A;
- the requirements of Section 33 Related Party Disclosures paragraph 33.7.

This information is included in the consolidated financial statements of SMS GmbH as at 31 December 2018 and these financial statements may be obtained from Ohlerkirchweg 66, 41069 Mönchengladbach, Germany.

SMS Group Technical Services (UK) Limited

Notes to the Financial Statements For the Year Ended 31 December 2018

2. Accounting policies (continued)

2.3 Going concern

The company's ability to continue as a going concern depends upon the support of the immediate parent company, SMS Group GmbH. The amount due to other group companies at 31 December 2018 was £10,058,661 (2017 - £9,497,376), and the company is therefore in a net current liabilities and net liabilities position.

The company has received written confirmation from SMS Group GmbH that it will support SMS Group Technical Services (UK) Limited for a period of at least 12 months from the date of approval and signing of the financial statements for the year ended 31 December 2018.

The directors have therefore concluded that it remains appropriate to prepare the financial statements on a going concern basis.

2.4 Revenue

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

Sale of goods

Revenue from the sale of goods is recognised on despatch, being the point at which all of the following conditions are satisfied:

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

Rendering of services

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

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

Long term contracts

Long term contracts are valued at cost plus attributable profit, based on the stage of completion at the statement of financial position date. Any known contract losses are recognised in full at the statement of financial position date. Turnover is recognised based on an internal assessment of work carried out on the contract.

SMS Group Technical Services (UK) Limited

Notes to the Financial Statements For the Year Ended 31 December 2018

2. Accounting policies (continued)

2.5 Tangible fixed assets

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

The company adds to the carrying amount of an item of fixed assets the cost of replacing part of such an item when that cost is incurred, if the replacement part is expected to provide incremental future benefits to the company. The carrying amount of the replaced part is derecognised. Repairs and maintenance are charged to profit or loss during the period in which they are incurred.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

Depreciation is provided on the following basis:

| | |
|------------------------------|--------------------------|
| Freehold property | - 2% straight line |
| Plant, fixtures and fittings | - 25% straight line |
| Motor vehicles | - 25% straight line |
| Computer equipment | - 20 - 25% straight line |

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other operating income' in the statement of comprehensive income.

2.6 Stocks

Stocks are valued at the lower of cost and net realisable value. Cost is based on the cost of purchase on a first in, first out basis. Net realisable value is based on estimated selling price less additional costs to completion and disposal.

At each reporting date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in the statement of comprehensive income.

Work in progress is measured at cost, to the extent they are considered recoverable.

2.7 Debtors

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

2.8 Cash and cash equivalents

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

SMS Group Technical Services (UK) Limited

Notes to the Financial Statements For the Year Ended 31 December 2018

2. Accounting policies (continued)

2.9 Financial instruments

The company only enters into basic financial instrument transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, loans from banks and other third parties, loans to related parties and investments in non-puttable ordinary shares.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade debtors and creditors, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration expected to be paid or received. However, if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or financed at a rate of interest that is not a market rate or in the case of an out-right short-term loan not at market rate, the financial asset or liability is measured, initially, at the present value of the future cash flow discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the statement of comprehensive income.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate, which is an approximation of the amount that the company would receive for the asset if it were to be sold at the reporting date.

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is an 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.

2.10 Creditors

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

SMS Group Technical Services (UK) Limited

Notes to the Financial Statements For the Year Ended 31 December 2018

2. Accounting policies (continued)

2.11 Foreign currency translation

Functional and presentation currency

The company's functional and presentational currency is GBP.

Transactions and balances

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

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

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

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of comprehensive income within 'finance income or costs'. All other foreign exchange gains and losses are presented in the statement of comprehensive income within 'other operating income'.

2.12 Finance costs

Finance costs are charged to the statement of comprehensive income over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

2.13 Operating leases: the company as lessee

Rentals paid under operating leases are charged to the statement of comprehensive income on a straight line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the lease term, unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

2.14 Pensions

Defined contribution pension plan

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

The contributions are recognised as an expense in the statement of comprehensive income when they fall due. Amounts not paid are shown in accruals as a liability in the statement of financial position. The assets of the plan are held separately from the company in independently administered funds.

SMS Group Technical Services (UK) Limited

Notes to the Financial Statements For the Year Ended 31 December 2018

2. Accounting policies (continued)

2.15 Provisions for liabilities

Provisions are made where an event has taken place that gives the company a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the statement of comprehensive income in the year that the company becomes aware of the obligation, and are measured at the best estimate at the statement of financial position date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the statement of financial position.

2.16 Current and deferred taxation

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

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company operates and generates income.

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

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

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

2.17 Exceptional items

Exceptional items are transactions that fall within the ordinary activities of the company but are presented separately due to their size or incidence.

SMS Group Technical Services (UK) Limited

Notes to the Financial Statements For the Year Ended 31 December 2018

3. Judgements in applying accounting policies and key sources of estimation uncertainty

In preparing these financial statements, the directors have had to make the following judgements:

- Long term contracts are assessed on a contract by contract basis and are included in turnover on the basis of stage of completion and the total sales value of each contract. Profit on long term contracts is recognised in line with the stage of completion of that contract, once it is sufficiently certain that a profit will be achieved.
- Determine whether leases entered into by the company either as a lessor or a lessee are operating or finance leases. These decisions depend on an assessment of whether the risks and rewards of ownership have been transferred from the lessor to the lessee on a lease by lease basis.
- Determine whether there are indicators of impairment of the company's tangible assets. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset and where it is a component of a larger cash-generating unit, the viability and expected future performance of that unit.

Other key sources of estimation uncertainty

- Tangible fixed assets (see note 12)

Tangible fixed assets, are depreciated over their useful lives taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In re-assessing asset lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

4. Turnover

The whole of turnover is attributable to the principal activity of the company.

The proportion of turnover that is attributable to markets outside the United Kingdom is 68% (2017 - 72%).

5. Exceptional items

| | 2018 £ | 2017 £ |
|---|------------------|-----------|
| Parkegate closure | 230,215 | - |
| Redundancy costs relating to the Parkgate closure | 909,594 | - |
| | <u>1,139,809</u> | <u>-</u> |

SMS Group Technical Services (UK) Limited

Notes to the Financial Statements For the Year Ended 31 December 2018

6. Other operating income

| | 2018 £ | 2017 £ |
|---|---------------|---------------|
| Profit and loss on foreign exchange and admin fees received | <u>74,257</u> | <u>69,747</u> |

7. Operating loss

The operating loss is stated after charging:

| | 2018 £ | 2017 £ |
|---|----------------|----------------|
| Depreciation of tangible fixed assets | 19,773 | 29,633 |
| Fees payable to the company's auditor and its associates for the audit of the company's annual financial statements | 15,600 | 15,000 |
| Exchange differences | 52,607 | 123,282 |
| Other operating lease rentals | 185,258 | 209,532 |
| Defined contribution pension cost | <u>181,202</u> | <u>171,594</u> |

8. Employees

Staff costs, including the directors' remuneration were as follows:

| | 2018 £ | 2017 Restated £ |
|---------------------|------------------|-----------------------|
| Staff salaries | 1,887,602 | 2,446,024 |
| Social security | 203,888 | 309,686 |
| Other pension costs | 181,202 | 171,594 |
| | <u>2,272,692</u> | <u>2,927,304</u> |

The average number of employees (including directors) during the year was 56 (2017 - 65).

Total redundancy payments of £416,594 (2017 - £Nil) has been excluded from the employee costs above. Refer to note 5 for redundancy costs included in exceptional costs.

The employment cost disclosed in this note in the prior year financial statements were understated by £1,357,564. The comparative figures above have been restated to reflect this correction. There is no impact on profit or net assets in either period.

SMS Group Technical Services (UK) Limited

Notes to the Financial Statements For the Year Ended 31 December 2018

9. Directors' remuneration

| | 2018 £ | 2017 £ |
|---|----------------|----------------|
| Directors' emoluments | 179,280 | 236,154 |
| Company contributions to defined contribution pension schemes | 18,051 | 17,567 |
| Compensation for loss of office | - | 85,000 |
| | <u>197,331</u> | <u>338,721</u> |

The highest paid director received remuneration of £102,520 (2017 - £157,117).

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £9,500 (2017 - £10,685).

Highest paid director received compensation for loss of office of £Nil (2017 - £55,000).

10. Interest payable and similar charges

| | 2018 £ | 2017 £ |
|-------------------------------|---------------|---------------|
| Loans from group undertakings | <u>88,614</u> | <u>69,263</u> |

SMS Group Technical Services (UK) Limited

Notes to the Financial Statements For the Year Ended 31 December 2018

11. Taxation

| | 2018 £ | 2017 £ |
|--|-----------|-----------|
| Corporation tax | | |
| Total current tax | - | - |
| Deferred tax | | |
| Total deferred tax | - | - |
| Taxation on profit on ordinary activities | - | - |
| Factors affecting tax charge for the year | | |

The tax assessed for the year is higher than (2017 - higher than) the standard rate of corporation tax in the UK of 19.00% (2017 - 19.25%). The differences are explained below:

| | 2018 £ | 2017 £ |
|--|-------------|-------------|
| Loss on ordinary activities before tax | (2,742,415) | (3,500,212) |
| Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.00% (2017 - 19.25%) | (521,059) | (673,791) |
| Effects of: | | |
| Expenses not deductible for tax purposes | 29,050 | - |
| Tax losses available to carry forward | 492,009 | 673,791 |
| Total tax charge for the year | - | - |

Factors that may affect future tax charges

In the year the company has unutilised tax losses available to carry forward of £11,378,164 (2017 - £8,788,642). No deferred tax asset has been recognised on the remainder of these losses as their future recoverability is uncertain.

SMS Group Technical Services (UK) Limited

Notes to the Financial Statements For the Year Ended 31 December 2018

12. Tangible fixed assets

| | Freehold property £ | Plant, fixtures and fittings £ | Computer equipment £ | Total £ |
|--------------------------|---------------------------|---|----------------------------|----------------|
| Cost or valuation | | | | |
| At 1 January 2018 | 77,587 | 74,674 | 111,197 | 263,458 |
| Additions | - | 1,843 | - | 1,843 |
| Disposals | - | - | (3,627) | (3,627) |
| At 31 December 2018 | <u>77,587</u> | <u>76,517</u> | <u>107,570</u> | <u>261,674</u> |
| Depreciation | | | | |
| At 1 January 2018 | 44,555 | 65,116 | 100,937 | 210,608 |
| Charge for the year | 11,424 | 5,707 | 4,745 | 21,876 |
| Disposals | - | - | (2,103) | (2,103) |
| At 31 December 2018 | <u>55,979</u> | <u>70,823</u> | <u>103,579</u> | <u>230,381</u> |
| Net book value | | | | |
| At 31 December 2018 | <u>21,608</u> | <u>5,694</u> | <u>3,991</u> | <u>31,293</u> |
| At 31 December 2017 | <u>33,032</u> | <u>9,558</u> | <u>10,260</u> | <u>52,850</u> |

The net book value of land and buildings may be further analysed as follows:

| | 2018 £ | 2017 £ |
|----------|---------------|---------------|
| Freehold | <u>21,608</u> | <u>33,032</u> |

SMS Group Technical Services (UK) Limited

Notes to the Financial Statements For the Year Ended 31 December 2018

13. Stocks

| | 2018 £ | 2017 £ |
|---------------------------------------|------------------|------------------|
| Deferred costs on long term contracts | 1,546,747 | 1,863,888 |
| Finished goods and goods for resale | 862,372 | 286,801 |
| | <u>2,409,119</u> | <u>2,150,689</u> |

There is no material difference between the replacement cost of stocks and the amounts stated above.

Stock recognised as an expense during the year was £2,709,759 (2017 - £2,263,083).

14. Debtors: amounts falling due within one year

| | 2018 £ | 2017 £ |
|------------------------------------|------------------|------------------|
| Trade debtors | 1,312,089 | 1,874,215 |
| Amounts owed by group undertakings | 1,300,300 | 946,421 |
| Other debtors | 78,221 | 130,926 |
| Prepayments | 63,228 | 61,062 |
| Accrued income | 3,505,312 | 4,439,160 |
| | <u>6,259,150</u> | <u>7,451,784</u> |

The impairment loss recognised in the company profit or loss for the year in respect of bad and doubtful trade debtors was £59,137 (2017 - £Nil).

15. Creditors: amounts falling due within one year

| | 2018 £ | 2017 Restated £ |
|------------------------------------|-------------------|-----------------------|
| Payments received on account | 365,185 | 780,781 |
| Trade creditors | 603,908 | 581,105 |
| Amounts owed to group undertakings | 10,058,661 | 9,497,376 |
| Other taxation and social security | 87,238 | 90,458 |
| Other creditors | 1,367 | 32,559 |
| Accruals and deferred income | 1,690,839 | 1,580,679 |
| | <u>12,807,198</u> | <u>12,562,958</u> |

See note 16 for information on the prior year restatement.

SMS Group Technical Services (UK) Limited

Notes to the Financial Statements For the Year Ended 31 December 2018

16. Provisions

| | Warranties £ | Loss making contracts £ | Total £ |
|------------------------------|-----------------|-------------------------------|------------------|
| At 1 January 2018 (restated) | 59,740 | 5,605,046 | 5,664,786 |
| Charged to profit or loss | 295,217 | 1,481,430 | 1,776,647 |
| At 31 December 2018 | 354,957 | 7,086,476 | 7,441,433 |

The provision in respect of loss-making contracts represents the directors' best estimate of the full loss that will be incurred on completion of these contracts. In the comparative period, this provision was presented within accruals and deferred income. The directors now consider this is more appropriately presented as a separate provision, reflecting the uncertainty around the timing and amount of this liability. The comparative figures have been restated to reflect this change, with a corresponding reduction of £5,605,046 in the comparative accruals and deferred income figure in note 15. This prior year restatement has no effect on profit or net assets in either period presented.

Warranty provisions relate to warranty costs on completed sales. The warranty period is 12 months in most cases.

17. Share capital

| | 2018 £ | 2017 £ |
|---|------------------|------------------|
| Allotted, called up and fully paid | | |
| 1,400,001 ordinary shares of £1 each | 1,400,001 | 1,400,001 |

18. Reserves

The company's capital and reserves are as follows:

Called up share capital

Called up share capital represents the nominal value of shares issued.

Capital contribution reserve

Capital contribution reserve represents the amount of contributions made to the company by fellow group undertakings.

Profit and loss account

The profit and loss account represents cumulative profits or losses, net of dividends paid and other adjustments.

SMS Group Technical Services (UK) Limited

Notes to the Financial Statements For the Year Ended 31 December 2018

19. Pension commitments

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension charge amounted to £181,202 (2017 - £171,594). Contributions amounting to £Nil (2017 - £29,951) were payable to the fund at the year end and are included in creditors.

20. Commitments under operating leases

At 31 December 2018 the company had future minimum lease payments under non-cancellable operating leases as follows:

| | 2018 £ | 2017 £ |
|--|----------------|----------------|
| Not later than 1 year | 81,566 | 158,661 |
| Later than 1 year and not later than 5 years | 188,515 | 77,787 |
| Later than 5 years | 10,750 | - |
| | <u>280,831</u> | <u>236,448</u> |

21. Related party transactions

The company is a wholly owned subsidiary of SMS GmbH and has taken advantage of the exemption conferred by FRS 102 not to disclose transactions with SMS GmbH or other wholly owned subsidiaries within the group.

22. Ultimate parent company and controlling party

The company is a subsidiary of SMS Group GmbH. The ultimate parent company is SMS GmbH which is incorporated in Germany.

The largest and smallest group in which the results of the company are consolidated is that headed by SMS GmbH, incorporated in Germany. The consolidated accounts of this company are available to the public and may be obtained from Ohlerkirchweg 66, 41069 Mönchengladbach, Germany. No other group accounts include the results of the company.