

Brush Electrical Machines Limited

Report and Financial Statements

31 March 2008

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COMPANIES HOUSE

Brush Electrical Machines Limited

Registered No 111849

Directors

N Bamford (resigned 1 July 2008)
A Ventrella (resigned 1 July 2008)
S A Peckham (appointed 1 July 2008)
G P Martin (appointed 1 July 2008)
G E Barnes (appointed 1 July 2008)

Secretary

A Ventrella

Auditors

Ernst & Young LLP
City Gate West,
Toll House Hill,
Nottingham,
NG1 5FY

Registered Office

Falcon Works,
PO Box 7713 Meadow Lane,
Loughborough,
Leicestershire
LE11 1ZF

Directors' report

The directors present their report and the audited financial statements for the year ended 31 March 2008

Principal activities and review of the business

The company's principal activity is that of an engineering company specialising in the manufacture and sale of electrical machines and the refurbishment of railway locomotives

Turnover from continuing operations during the year ended 31st March 2008 was £203.2 million (2007 £140.2 million). Demand continues to be driven by the strength of the global demand for power generation equipment from utilities, industrial companies and the oil and gas sector. The largest of the two major locomotive refurbishment contracts secured during the previous financial year was completed during this year.

Operating profit was £20.2 million (2007 £10.6 million). The trading improvement in operating profit was principally due to increased turnover.

Exceptional items during the year of £0.2m related to site closure costs of De Wind.

Net finance income was £3.4m (2007 £1.8m) and represents net interest payable on loans to fellow group undertakings of £3.3 million (2007 £1.2 million), net bank interest receivable of £1.5 million (2007 £0.7 million), a £5.3 million exchange gain (2007 £nil) on inter group balances and a fair value loss on financial instruments of £0.1 million (2007 £0.1 million).

The taxation credit for the year was £0.3m (2007 credit of £3.2m) and a reconciliation of the actual current tax figure to the standard rate of corporation tax is set out in note 8 to the financial statements.

The company has adopted a process for the identification, assessment, treatment, monitoring and reporting of risk. This process helps support business objectives by linking into business strategy, identifying and reacting to emerging risks and developing cost effective solutions to risk exposures.

The company's products and manufacturing processes require a variety of raw materials including steel and copper. Any increase or volatility in the price of these commodities and energy together with shortages in supply can affect the company's performance. Purchasing policies and practices take into account and seek to mitigate the dependence on any single item and supplier where practicable.

In addition to the above, the company's involvement in global markets creates an exposure to other risk factors that are both external and internal to the company. These risks include but are not limited to failure to comply with legislative and regulatory requirements including environmental and litigation risk, equipment failures, business continuity and the actions of customers and competitors. The company has, as previously described, implemented risk controls and loss mitigation plans but cannot give absolute assurance that such procedures will be effective in identifying or controlling each of the operational risks faced by the company.

A final dividend of £25 (2007 £100) per ordinary share amounting to £25,000,000 (2007 £100,000,000) was paid during the year.

Directors and their interests

The directors who served during the year ended 31 March 2008 are as listed on page 1.

No director had any interests in the shares of the company at 31 March 2008.

Directors' report

Employment policies

The company has developed a wide range of voluntary practices and procedures for employee involvement. The company encourages this approach to provide information and consultation and believes this promotes understanding of the issues facing the individual business in which the employee works.

It is company policy to achieve and maintain a high standard of health and safety by all practical means and the active involvement of employees in matters of health and safety is encouraged.

It is the policy of the company to give full and fair consideration to applications made by disabled persons for job vacancies, where particular job requirements are within their ability and, where possible, arrangements are made for the continuing employment of employees who have become disabled.

Research and development

Product development and innovation is a continuous process. The company has committed additional resources to the development of new products to enhance the organic growth of the business.

Suppliers payment policy

The company agrees terms and conditions for its business transactions with suppliers. Payment is made on those terms subject to the terms and conditions being met by the supplier.

Charitable donations

During the year the company donated £1k for charitable purposes (2007 £Nil). No political donations were made during the year (2007 £nil).

Shares

During the year the company issued one preference share Type A and one preference share Type B to fellow group undertakings for a total consideration of £304.3 million.

Directors' Liabilities

The ultimate parent undertaking has indemnified one or more directors of the company against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision was in force during the year.

Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

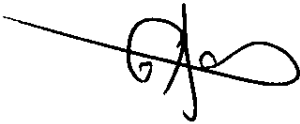
Directors' report

Directors' statement as to disclosure of information to auditors

The directors who were members of the board at the time of approving the directors' report are listed on page 1. Each of these directors confirms that

- to the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the company's auditors are unaware, and
- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's auditors are aware of that information

By order of the Board



G E Barnes
Director

5/9/08

Statement of directors' responsibilities in relation to the financial statements

The directors are responsible for preparing the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice

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). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. 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.

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Independent auditors' report

to the members of Brush Electrical Machines Limited

We have audited the company's financial statements for the year ended 31 March 2008 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 24. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 auditors' 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.

Respective responsibilities of directors and auditors

The director's responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Director's Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding director's remuneration and other transactions is not disclosed.

We read the director's report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Independent auditors' report

to the members of Brush Electrical Machines Limited (continued)

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2008 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the director's report is consistent with the financial statements

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
Nottingham

Date *10 September 2008*

Profit and loss account

for the year ended 31 March 2008

	Notes	2008 £000	2007 £000
Turnover	2	203,241	140,208
Cost of sales		(168,659)	(117,385)
Gross profit		<u>34,582</u>	<u>22,823</u>
Distribution costs		(2,990)	(2,522)
Administrative expenses		(11,347)	(9,688)
Operating profit before interest and taxation	4	<u>20,245</u>	<u>10,613</u>
Non-operating exceptional items	3	(153)	157
Net finance income	7	3,384	1,794
Profit on ordinary activities before taxation		<u>23,476</u>	<u>12,564</u>
Tax on ordinary activities	8	284	3,158
Profit on ordinary activities after taxation	16	<u><u>23,760</u></u>	<u><u>15,722</u></u>

All amounts relate to continuing activities

Statement of total recognised gains and losses

for the year ended 31 March 2008

	<i>Notes</i>	<i>2008</i> <i>£000</i>	<i>2007</i> <i>£000</i>
Profit before dividends for the year		23,760	15,722
Net (loss)/gain on cash flow hedges		(710)	440
Taxation on (loss)/gain on cash flow hedges		214	(133)
Total recognised gains and losses relating to the year		<u>23,264</u>	<u>16,029</u>

Balance sheet

at 31 March 2008

	Notes	2008 £000	2007 £000
Fixed assets			
Tangible assets	9	9,845	8,626
		<u>9,845</u>	<u>8,626</u>
Current assets			
Stocks	10	14,470	11,856
Debtors	11	313,319	35,427
Cash and short-term deposits		73,039	37,755
		<u>400,828</u>	<u>85,038</u>
Creditors: amounts falling due within one year	12	(78,942)	(63,768)
		<u>321,886</u>	<u>21,270</u>
Net current assets			
		<u>321,886</u>	<u>21,270</u>
Total assets less current liabilities			
		331,731	29,896
Creditors: amounts falling due after more than one year	13	(304,359)	–
Provisions for liabilities and charges	14	(1,019)	(1,517)
		<u>26,353</u>	<u>28,379</u>
Net assets			
		<u>26,353</u>	<u>28,379</u>
Capital and reserves			
Called up share capital	15	1,000	1,000
Capital reserve	16	493	493
Hedging reserve	16	(189)	307
Profit and loss account	16	25,049	26,579
		<u>26,353</u>	<u>28,379</u>
Equity shareholder's funds	17	26,353	28,379
		<u>26,353</u>	<u>28,379</u>

Approved by the Board and signed on its behalf by

G. P. Martin

G P Martin
Director

Date 5/9/08.

Notes to the financial statements

at 31 March 2008

1. Accounting policies

Basis of preparation

The financial statements are prepared under the historical cost convention, in accordance with applicable accounting standards

The company has taken advantage of the exemption from adopting FRS 29 – (IFRS 7) Financial Instruments – Disclosures as the company is a wholly owned subsidiary of FKI plc and the consolidated financial statements of FKI plc, which are publicly available, have adopted IFRS 7 – Financial Instruments – Disclosures

Statement of cash flow

Under the provisions of FRS 1 “Cash Flow Statements” (Revised 1996), the company has not prepared a statement of cash flows because its immediate parent undertaking, FKI plc, has prepared consolidated financial statements which include the financial statements of the company and which contain a statement of cash flows

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost, less estimated residual value, of each asset on a straight line basis over their expected useful lives, as follows

Freehold buildings	– 50 years
Plant and machinery – heavy production	– 15 years
Plant and machinery – other	– 10 years
Office equipment	– 5 to 10 years
Motor vehicles	– 3 to 5 years

Stocks and works in progress

Stocks are stated at the lower of cost or net realisable value after making due allowance for any obsolete or slow moving items. In the case of finished goods and work in progress, cost comprises the actual cost of raw materials and direct labour and an appropriate proportion of manufacturing overheads based on normal levels of activity. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal

Long-term contracts

Long-term contracts are stated at costs incurred, which comprise the cost of direct materials and labour plus appropriate manufacturing overhead expenses, net of amounts transferred to cost of sales and after deducting foreseeable losses and payments on account not matched with turnover. To the extent that payments on account exceed the value at which long-term contracts are stated they are included as “payments received on account” within creditors

Research and development

Development expenditure on clearly defined projects whose outcome can be assessed with reasonable certainty is capitalised and amortisation is commenced in the year the expenditure is incurred by reference to the lesser of the life of the project or three years. All other research and development expenditure is written off in the year in which it is incurred

Notes to the financial statements

at 31 March 2008

1. Accounting policies (continued)

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued asset and the gain or loss expected to arise on sale has been recognised in the financial statements. Neither is deferred tax recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold

Deferred tax is measured at the average rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis

Foreign currencies

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to Sterling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates ruling at the dates the fair values were determined

Turnover

Turnover comprises the invoiced value of goods and services supplied by the company exclusive of value added taxes. In respect of long-term contracts turnover is calculated on a percentage completion basis, as the cost incurred up to the accounting date plus a proportion of the profit appropriate to the percentage completion of each contract

The amount by which recorded turnover on contracts is in excess of payments on account is recorded in debtors as "amounts recoverable on contracts". Attributable profit is recognised on long-term contracts only when the profitable outcome of the contract can be reasonably foreseen and is calculated so as to reflect the proportion of the work carried out at the year end. Full provision is made in respect of foreseeable losses on uncompleted contracts

Leasing and hire purchase commitments

Assets obtained under hire purchase contracts and leases which result in the transfer to the company of substantially all the risks and rewards of ownership (finance leases) are capitalised as tangible fixed assets at the estimated present value of underlying lease payments and are depreciated over their expected useful lives or over the primary lease period, whichever is the shorter, in accordance with the above policy. The capital elements of future lease obligations are recorded as liabilities whilst the finance element of the rental payments are charged to the profit and loss account over the period of the lease or hire purchase contract so as to produce a constant rate of charge on the outstanding balance of the net obligation in each

Notes to the financial statements

at 31 March 2008

1. Accounting policies (continued)

Leasing and hire purchase commitments (continued)

year Rentals paid under other leases (operating leases) are charged against income on a straight line basis over the lease term

Defined benefit pension scheme

The company participates in a defined benefit pension scheme, which is funded, with the assets of the scheme held separately from those of the company, in separate trustee administered funds. The company's contributions are affected by the surplus/deficit in the scheme. However, it is not possible to identify the company's share of the underlying assets and liabilities in the scheme on a consistent and reasonable basis. Therefore, in accordance with FRS 17 multi-employer exemption, the scheme is accounted for as if it were a defined contribution scheme.

The latest available information relating to the scheme and the implications for the company are detailed in the notes to the financial statements.

Defined contribution pension scheme

Pension costs for the company's defined contribution pension scheme are recognised within operating profit at an amount equal to the contributions payable to the scheme for the year. Any prepaid or outstanding contributions at the balance sheet date are recognised respectively as assets or liabilities within prepayments or accruals.

Share based payments

Incentives in the form of shares are provided to employees under share options and share award schemes that are established by the parent undertaking, FKI plc. The fair value of these options and awards at their date of grant is determined by an external valuation and is charged to the profit and loss account over the relevant vesting periods. In valuing these transactions, no account is taken of any performance conditions other than conditions linked to the price of the shares of FKI plc. The value of the charge is adjusted to reflect expected and actual levels of options and awards vesting.

The costs of these share based payments are treated as a capital contribution from the parent company. Any payments made by the company to its parent company in respect of these arrangements are treated as a return of this capital contribution.

The company has taken advantage of the transitional provisions of FRS 20 and has applied FRS 20 only to equity settled awards granted after 7 November 2002 that had not vested on or before 1 April 2004.

Derivative financial instruments and hedge accounting

The Company uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financial and investment activities. The Company does not use derivative financial instruments for speculative purposes.

Derivative financial instruments are recognised initially at cost. Subsequent to initial recognition they are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

The fair value of forward foreign exchange contracts is determined by reference to current forward exchange rates for contracts with similar maturity profiles.

For the purpose of hedge accounting, hedges are classified as either fair value hedges where they hedge the exposure to changes in the fair value of a recognised asset or liability, or cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

Notes to the financial statements

at 31 March 2008

1. Accounting policies (continued)

Derivative financial instruments and hedge accounting (continued)

In relation to fair value hedges which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument at fair value is recognised immediately in the income statement. Any gain or loss on the hedged item attributable to the hedged risk is recognised as an adjustment to the carrying amount of the hedged item and recognised in the income statement. Where the adjustment is to the carrying amount of a hedged interest-bearing financial instrument, the adjustment is amortised to the net profit and loss such that it is fully amortised by maturity.

In relation to cash flow hedges (eg forward foreign currency contracts) to hedge firm commitments which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly to equity and the ineffective portion is recognised in net profit or loss.

When the hedged firm commitment results in the recognition of an asset or liability, then, at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability. For cash flow hedges that do not result in the recognition of an asset or a liability, the gains or losses that are recognised in equity are transferred to the income statement in the same year in which the hedged firm commitment affects the net profit and loss, for example when the future sale actually occurs.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the year.

2. Turnover and segmental analysis

Turnover and profit before taxation are derived from a single business segment being the principal activity of the company.

An analysis of turnover by geographical destination is as follows:

	2008	2007
	£000	£000
United Kingdom	61,247	38,274
North America	61,142	39,601
Rest of Europe	71,814	53,805
Rest of world	9,038	8,528
	<u>203,241</u>	<u>140,208</u>

Notes to the financial statements

at 31 March 2008

3. Exceptional items

	2008	2007
	£000	£000
Closure costs of discontinued business	153	(157)

The costs in 2008 relate to the discontinued De Wind business. The prior year credit related to the release of liabilities no longer required. There is no tax impact relating to exceptional items.

4. Operating profit

Operating profit is stated after charging/(crediting)

	2008	2007
	£000	£000
Auditors' remuneration – audit	38	35
Depreciation of owned tangible fixed assets	1,414	1,294
Research and development expenditure	134	184
Operating lease rentals – plant and machinery	119	103

5. Directors' remuneration

The directors received no remuneration for their services to the company during the year (2007: £nil). The emoluments of N Bamford and A Ventrella have been borne by FKI plc. The directors of the company are also directors of a number of companies within the FKI group. The directors' services to the company do not occupy a significant amount of their time. As such, the directors do not consider that they have received any remuneration for their incidental services to the company for the year ended 31 March 2008 or 31 March 2007.

6. Staff costs

	2008	2007
	£000	£000
Wages and salaries	26,877	23,877
Social security and other allied costs	2,474	2,184
Pension and other post retirement benefits	7,808	5,257
	37,159	31,318

Notes to the financial statements

at 31 March 2008

6. Staff costs (continued)

The average monthly number of persons (including directors) employed during the year was

	2008	2007
	No	No
Production	756	704
Administration and management	109	113
Sales and distribution	55	44
	<u>920</u>	<u>861</u>

7. Net finance income

	2008	2007
	£000	£000
Interest receivable and similar charges on		
Loans to fellow group undertakings	9,563	2,192
Bank interest	1,612	1,325
Gain on foreign exchange	5,318	-
	<u>16,493</u>	<u>3,517</u>
Interest payable and similar charges on		
Other loans	(138)	(565)
Loans from fellow group undertakings	(12,912)	(1,011)
Fair value loss on financial instruments	(59)	(147)
	<u>3,384</u>	<u>1,794</u>

8. Tax on profit on ordinary activities

Tax on profit on ordinary activities

The tax credit comprises

	2008	2007
	£000	£000
<i>Current tax</i>		
Adjustments in respect of previous years	-	(3,324)
Total current tax	<u>-</u>	<u>(3,324)</u>
<i>Deferred tax</i>		
Origination and reversal of timing differences	(284)	166
Tax on profit on ordinary activities	<u>(284)</u>	<u>(3,158)</u>

Notes to the financial statements

at 31 March 2008

8. Tax on profit on ordinary activities (continued)

The tax assessed on the profit on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 30% (2007 30%) The differences are reconciled below

	2008 £000	2007 £000
Profit on ordinary activities before taxation	23,476	12,564
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2007 30%)	7,043	3,769
Effects of		
Permanent differences	3,484	136
Group relief from parent for nil consideration	(10,811)	(3,739)
Accelerated capital allowances	284	(39)
Short term timing differences	—	(127)
Adjustment in respect of prior periods	—	(3,324)
Total current tax	—	(3,324)

9. Tangible fixed assets

	Freehold property £000	Plant, equipment and vehicles £000	Total £000
Cost			
At 1 April 2007	153	41,955	42,108
Additions – external	—	2,708	2,708
Disposals	—	(204)	(204)
At 31 March 2008	153	44,459	44,612
Depreciation			
At 1 April 2007	20	33,462	33,482
Charge for the year	4	1,410	1,414
Disposals	—	(129)	(129)
At 31 March 2008	24	34,743	34,767
Net book value			
At 31 March 2008	129	9,716	9,845
At 31 March 2007	133	8,493	8,626

Notes to the financial statements

at 31 March 2008

10. Stocks

	2008	2007
	£000	£000
Raw materials and consumables	6,627	3,516
Work in progress	14,833	18,501
	<u>21,460</u>	<u>22,017</u>
Less applicable payments on account	(6,990)	(10,161)
	<u>14,470</u>	<u>11,856</u>

There is no material difference between the balance sheet value of stocks and their replacement cost

11. Debtors

	2008	2007
	£000	£000
Trade debtors	20,886	16,114
Amounts due from other group undertakings	260,542	2,815
Amounts recoverable on contracts	28,914	14,306
Other debtors	1,131	710
Prepayments and accrued income	951	755
Derivative financial assets	895	727
	<u>313,319</u>	<u>35,427</u>

12. Creditors: amounts falling due within one year

	2008	2007
	£000	£000
Payments received on account	2,038	1,581
Trade creditors	34,892	20,453
Amounts due to parent and fellow subsidiary undertakings	29,982	34,845
Other taxes and social security costs	1,575	2,522
Other creditors	6,359	2,256
Accruals and deferred income	3,650	2,111
Derivative financial liabilities	446	—
	<u>78,942</u>	<u>63,768</u>

Notes to the financial statements

at 31 March 2008

13. Creditors: amounts falling due after more than one year

	2008 £000	2007 £000
Preference shares – share premium	304,308	–
Derivative financial liabilities	51	–
	<u>304,359</u>	<u>–</u>

14. Provisions for liabilities and charges

	Deferred tax £000
At 1 April 2007	1,517
Amounts charged to profit and loss account	(284)
Amounts charged to the statement of total recognised gains and losses	(214)
At 31 March 2008	<u>1,019</u>

Deferred taxation, provided in the financial statements, is in respect of

	2008 £000	2007 £000
Accelerated capital allowances	1,100	1,384
Net (loss)/gain on cash flow hedge	(81)	133
	<u>1,019</u>	<u>1,517</u>

15. Share capital

	2008 Number	2007 Number
<i>Authorised</i>		
1,000,000 Ordinary shares of £1 each	1,000,000	1,000,000
1 Preference share Type A of £1 each	1	–
1 Preference share Type B of £1 each	1	–
	<u>1,000,002</u>	<u>1,000,000</u>
	2008 £000	2007 £000
<i>Allotted, called up and fully paid</i>		
1,000,000 Ordinary shares of £1 each	1,000	1,000
1 Preference share Type A of £1 each	–	–
1 Preference share Type B of £1 each	–	–
	<u>1,000</u>	<u>1,000</u>

Notes to the financial statements

at 31 March 2008

15. Share capital (continued)

During the year the company issued one preference share of type A and one preference share of type B to fellow group undertakings for a total consideration of £304.3 million. These preference shares are presented as a liability in these financial statements in accordance with FRS25.

Entitlement to dividends

'A' and 'B' preference shareholders are entitled to a cumulative cash dividend which will accrue from day to day at an annual rate equal to the base rate of Barclays Bank plc in force from time to time on the amount paid up on each share (inclusive of share premium).

Subject thereto, all dividends and distributions shall be paid to the holders of the 'A' preference share, 'B' preference share and ordinary shares pro rata according to the nominal value thereof.

Voting rights

The holders of the 'A' and 'B' preference shares are entitled to receive notice of and to attend all meetings of the company but shall not be entitled to vote thereat.

Entitlement on winding up

On a return of assets on liquidation, reduction of capital or otherwise the surplus assets of the company remaining after payment of its debts and liabilities shall be applied:

- First in payment to the holders of 'A' preference shares and 'B' preference shares, as if the same constituted a single class, of an amount equal to the amount paid up thereon (including any premium) together with a sum equal to any arrears to accruals of the dividend payable thereon calculated down to the date of the return of capital,
- Second in payment to the holders of the ordinary shares of an amount equal to the nominal value thereof,
- Third in payment of any surplus to the holders of the 'A' preference share, the 'B' preference share and the ordinary shares pro rata according to the nominal value thereof.

16. Reserves

	<i>Hedging reserve</i>	<i>Capital reserve</i>	<i>Profit and loss account</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
At 1 April 2007	307	493	26,579
Retained profit for the year	—	—	23,760
Dividends paid	—	—	(25,000)
Unrealised Losses in year	(496)	—	—
Issued in year	—	—	—
Recharge from FKI plc for share based payments	—	—	(402)
Share based payments – current year charge	—	—	112
At 31 March 2008	(189)	493	25,049

Notes to the financial statements

at 31 March 2008

17. Reconciliation of movements in shareholder's funds

	2008 £000	2007 £000
Opening equity shareholder's funds	28,379	112,113
Profit after taxation attributable to shareholders	23,760	15,722
Share based payment	–	237
Dividends paid	(25,000)	(100,000)
Net gain on cash flow hedge	(710)	440
Taxation on gain on cash flow hedge	214	(133)
Recharge from FKI plc for share based payments	(402)	–
Share based payments – current year charge	112	–
Closing equity shareholder's funds	26,353	28,379

18. Financial instruments

	31 March 2008			31 March 2007		
	<i>Derivative financial assets £000</i>	<i>Derivative financial liabilities £000</i>	<i>Net financial instruments £000</i>	<i>Derivative financial assets £000</i>	<i>Derivative financial liabilities £000</i>	<i>Net financial instruments £000</i>
Derivative financial instruments – current						
Forward foreign exchange contracts	2	(446)	(444)	420	–	420
Cash flow hedges	893	–	893	307	–	307
	<u>895</u>	<u>(446)</u>	<u>449</u>	<u>727</u>	<u>–</u>	<u>727</u>
Derivative financial instruments – non current						
Forward foreign exchange contracts	–	(51)	(51)	–	–	–
	<u>–</u>	<u>(51)</u>	<u>(51)</u>	<u>–</u>	<u>–</u>	<u>–</u>

Notes to the financial statements

at 31 March 2008

18. Financial instruments (continued)

Cash flow hedges

At 31 March 2008 the Company held 12 copper swap contracts that are designated as cash flow hedges. These contracts lock the Company into fixed copper prices which help protect against fluctuations in the market price of copper. The terms of these contracts are:

	<i>Commodity</i>	<i>Total quantity</i>	<i>Maturity</i>	<i>Pricing</i>
Commodity Swaps				
Pays	Copper	1,016 tonnes	Various dates between April 2008 and March 2009	Month-end settlements at fixed prices averaging US Dollars 6,680 per tonne
Receive	Copper	1,016 tonnes	Various dates between April 2008 and March 2009	Month-end settlements at the average LME price for each month

Forward foreign exchange contracts

At 31 March 2008 the Company held a number of forward foreign exchange contracts that were accounted for as cash flow hedges are:

	<i>Currency</i>	<i>Principal</i>	<i>Maturity</i>	<i>Exchange rate</i>
Forward foreign exchange contracts				
Pays	US Dollar	43.5 million	Various dates between 25 April 2008 and 21 May 2009	Various US Dollar Sterling exchange rates ranging from \$1.93 to \$2.01
Receives	Sterling	22.1 million		
Pays	Euros	9.0 million	Various dates between 2 May 2008 and 1 August 2008	Euro Sterling Exchange Rate of €0.69
Receives	Sterling	6.2 million		
Pays	Sterling	15.3 million	Various dates between 27 August 2008 and 19 November 2008	Various Czech Koruna Sterling CZK 31.58 to CZK 34.39
Receives	Czech Koruna	502.3 million		
Pays	Bahrain Dollars	0.2 million	13 May 2008	Bahrain Dollar Sterling of BHD0.74
Receives	Sterling	0.3 million		
Pays	Canada Dollars	3.5 million	5 June 2008	Canadian Dollar Sterling Exchange rate of \$2.02
Receives	Sterling	1.7 million		

Notes to the financial statements

at 31 March 2008

18. Financial instruments (continued)

Fair value of financial instruments

Fair value is defined as the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties and is calculated by reference to market prices discounted to current value. Where market values are not available, fair values have been calculated by discounting cash flows at prevailing rates translated at year end exchange rates.

	31 March 2008		31 March 2007	
	Book value £000	Market value £000	Book value £000	Market value £000
Cash and short-term deposits	73,039	73,039	37,755	37,755
Derivative financial instruments				
- Forward foreign exchange contracts	(495)	(495)	420	420
- Commodity Swaps	893	893	307	307
Net financial assets	<u>73,437</u>	<u>73,437</u>	<u>38,482</u>	<u>38,482</u>

Foreign currency risk

The Company uses forward foreign exchange contracts to hedge foreign currency exposures on committed, and occasionally forecast, receipts and payments in foreign currencies.

19. Financial commitments

Capital commitments

	2008 £000	2007 £000
Contracted but not provided for	463	2,287

20. Pensions arrangements

The company participates in a funded group defined benefit scheme. It is not possible to identify the company's share of assets and liabilities in the scheme on a consistent and reasonable basis. Therefore, in accordance with FRS 17 paragraph 9 (b) (multi-employer exemption), the scheme is accounted for as if it were a defined contribution scheme.

The pension contribution for the year amounted to £7,808,000 (2007 £5,237,000).

In order to provide information about the existence of a surplus or deficit in the scheme, a separate valuation of the scheme as at 31 March 2008 using the projected unit basis required by the Standard has been obtained.

The valuation of the group scheme shows the following deficit:

UK group scheme £3,800,000 (2007 £74,100,000)

For the purposes of these financial statements, these figures are illustrative only and do not impact on the results or the balance sheet of the company. It should also be noted that these figures include a substantial proportion of pension assets and liabilities relating to other group companies which also participate in the

Notes to the financial statements

at 31 March 2008

20. Pensions arrangements (continued)

scheme It has not been possible to identify the share of the surplus/deficit which relates solely to Brush Electrical Machines Limited

The measurement bases required by FRS 17 are likely to give rise to significant fluctuations in the reported amounts of the defined benefit pension scheme's assets and liabilities from year to year, and do not necessarily give rise to a change in the contributions payable into the scheme, which are recommended by the independent actuaries based on the expected long term rate of return on the scheme assets

Further details of the group pension scheme can be found in the financial statement of the immediate parent company, FKI plc

21. Financial commitments

Lease commitments

At 31 March 2008, the company had annual financial commitments under non-cancellable operating leases as set out below

	<i>Plant and machinery</i>	
	<i>2008</i>	<i>2007</i>
	<i>£000</i>	<i>£000</i>
Operating leases which expire		
– within one year	9	29
– within two to five years	107	62
	<u>116</u>	<u>91</u>

22. Contingent liabilities

As part of a group banking arrangement, the company has entered into a multilateral cross guarantee with certain group companies in respect of group overdraft borrowings Outstanding bonds and guarantees at the year end amount to £7,338,000 (2007 £5,631,000)

23. Related party transactions

The company is an indirect wholly owned subsidiary of FKI plc, the consolidated accounts of which are publicly available Accordingly, the company has taken advantage of the exemption in FRS 8 from disclosing transactions with members or investees of the FKI group

24. Ultimate parent undertaking

The directors regard FKI plc, a company incorporated in Great Britain and registered in England and Wales, as the company's ultimate parent undertaking and controlling party for the year ended 31 March 2008 The group into which the results of the company are consolidated is that headed by FKI plc Copies of the financial statements are available from the Company Secretary, FKI plc, Falcon Works, PO Box 7713 Meadow Lane, Loughborough, Leicestershire LE11 1ZF

On the 1 July 2008 FKI plc was purchased by Melrose Plc, a company incorporated in Great Britain and registered in England and Wales, which the directors regard as the company's ultimate parent undertaking and controlling party from that date