

Registration number: 00111849

Brush Electrical Machines Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2016

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Brush Electrical Machines Limited

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Brush Electrical Machines Limited

Company Information

Directors	G E Barnes
	G P Martin
	G D Morgan
	A G Peart
	S A Peckham
	M J Richards
Company secretary	B P Hewitson
Registered office	11th Floor
	The Colmore Building
	20 Colmore Circus Queensway
	Birmingham
	West Midlands
Auditors	B4 6AT
	Deloitte LLP
	Statutory Auditors
	Birmingham
	United Kingdom

Brush Electrical Machines Limited

Strategic Report for the Year Ended 31 December 2016

The Directors present their Strategic Report for the year ended 31 December 2016.

Principal activity

The Company's principal activity is that of an engineering company specialising in the manufacture and sale of electrical machines.

Fair review of the business

Turnover for the year ended 31 December 2016 was £71,719,000 (year ended 31 December 2015: £77,459,000). The operating profit for the year ended 31 December 2016 was £7,520,000 (year ended 31 December 2015: loss of £40,652,000). The retained profit for the year ended 31 December 2016 was £82,129,000 (year ended 31 December 2015: loss of £26,734,000).

The Company considers its key performance indicators to be in line with those of Melrose Industries PLC as disclosed in the Strategic Report of the 2016 Annual Report.

The Company is performing broadly in line with expectations in a tough market. Turnover decreased during the year by 7% (year ended 31 December 2015: 33% decrease). This decrease was primarily as a result of the continued difficult conditions in new-build end markets, mitigated by an upturn in aftermarket revenues as customers who previously cut back on repair work are now able to resume their repair and maintenance programmes.

Operating profit, excluding the impact of operating exceptional expenses and foreign exchange gains and losses, decreased during the year by 16%. This decline is a result of the reduction in revenue which occurred during the year, a change in the sales mix and a highly competitive market driving a decrease in prices in all sectors.

Reorganisation expenses of £2,791,000 have been recognised during the year (year ended 31 December 2015: £5,216,000). These relate primarily to headcount reductions and have been incurred in order to realign the cost base of the business with the reduced level of revenues. In addition, a review of the carrying value of the Company's investments during the year identified impairments totalling £74,000 (year ended 31 December 2015: £41,674,000).

End markets continue to remain challenging. However, as a result of the cost structure actions undertaken, along with the strategic actions being taken in relation to the Company's customer base, the Directors are confident that the medium to long-term trading prospects of the Company are good.

Principal risks and uncertainties

The Company considers its principal risks and uncertainties to be in line with those of Melrose Industries PLC as disclosed in the Performance Review section of the 2016 Annual Report.

Financial risk management

The Company's activities expose it to a number of financial risks including credit risk, cash flow risk and liquidity risk. The use of financial derivatives is governed by the Company's policies and approved by the Board of Directors, which provide written principles on the use of financial derivatives to manage these risks. The Company does not use derivative financial instruments for speculative purposes.

Brush Electrical Machines Limited

Strategic Report for the Year Ended 31 December 2016

Principal risks

Credit risk

The Company's principal financial assets are bank balances and trade and other receivables (including amounts due from other Group undertakings).

The Company's credit risk is primarily attributable to its trade receivables and receivables from other Group undertakings. The amounts presented in the Balance Sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Company has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

Cash flow risk

The Company's activities expose it to the financial risks of changes in foreign currency exchange rates. The Company uses foreign exchange forward contracts to hedge these exposures.

Liquidity risk


To maintain liquidity and ensure that sufficient funds are available for ongoing operations and future developments, the Company ensures regular communication with other Group companies.

Going concern

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis in preparing the annual financial statements.

Further details regarding the adoption of the going concern basis can be found in the Statement of accounting policies in the financial statements.

Approved by the Board on 4 August 2017 and signed on its behalf by:



.....
G E Barnes
Director

Brush Electrical Machines Limited

Directors Report for the Year Ended 31 December 2016

The Directors present their report and the audited financial statements for the year ended 31 December 2016. An indication of likely future developments in the business of the Company is included in the Strategic Report. Information on financial risk management and going concern are also included in the Strategic Report.

Directors of the Company

The directors who held office during the year were as follows:

G E Barnes

G P Martin

G D Morgan

A G Peart

S A Peckham

M J Richards

No Director had a beneficial interest in the share capital of the Company or any of its subsidiaries, except for the fact that each Director held shares and/or options over shares in Melrose Industries PLC, the ultimate parent company and controlling party, and therefore had an indirect beneficial interest in the Company.

Dividends

The Directors do not recommend the payment of a final dividend in respect of the financial year ended 31 December 2016 (year ended 31 December 2015: £nil).

Employment of disabled persons

Applications for employment by disabled persons are always fully considered, bearing in mind the abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Company continues and that appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Employee involvement

The Company places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Company. 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.

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. The Company incurred research and development costs of £797,000 during the year (year ended 31 December 2015: £39,000).

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 throughout the year and at the date of this report.

Brush Electrical Machines Limited

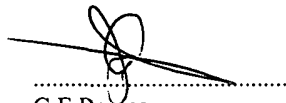
Directors Report for the Year Ended 31 December 2016

Disclosure of information to the auditors

Each Director has taken steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information. The Directors confirm that there is no relevant information that they know of and of which they know the auditor is unaware.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Approved by the Board on 4 August 2017 and signed on its behalf by:


.....
G E Barnes
Director

Brush Electrical Machines Limited

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual 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 Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework' ('FRS 101'). 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 apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the 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.

Brush Electrical Machines Limited

Independent Auditor's Report to the members of Brush Electrical Machines Limited

We have audited the financial statements of Brush Electrical Machines Limited for the year ended 31 December 2016, set out on pages 9 to 49. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework'.

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 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.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities (set out on page 6), the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors to the financial statements.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its profit 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.

Opinion on other matters prescribed by the Companies Act 2006

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

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

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

Brush Electrical Machines Limited

Independent Auditor's Report to the members of Brush Electrical Machines Limited

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where 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



.....
Peter Gallimore, FCA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP, Statutory Auditor

Birmingham
United Kingdom

4 August 2017

Brush Electrical Machines Limited

Profit and Loss Account for the Year Ended 31 December 2016

	Note	2016 £ 000	2015 £ 000
Turnover	4	71,719	77,459
Cost of sales		<u>(52,773)</u>	<u>(54,092)</u>
Gross profit		18,946	23,367
Distribution costs		(5,692)	(7,559)
Administrative expenses		(1,960)	(9,570)
Exceptional operating items	5	<u>(3,774)</u>	<u>(46,890)</u>
Operating profit/(loss)	6	7,520	(40,652)
Income from shares in group undertakings		75,743	16,400
Interest receivable and similar income	8	1,698	1,008
Interest payable and similar charges	9	<u>(1,507)</u>	<u>(3,196)</u>
Profit/(loss) before tax		83,454	(26,440)
Tax on profit/(loss) on ordinary activities	12	<u>(1,325)</u>	<u>(294)</u>
Profit/(loss) for the year		<u>82,129</u>	<u>(26,734)</u>

The above results were derived from continuing operations.

Brush Electrical Machines Limited

Statement of Comprehensive Income for the Year Ended 31 December 2016

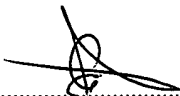
	2016 £ 000	2015 £ 000
Profit/(loss) for the year	<u>82,129</u>	<u>(26,734)</u>
Items that will not be reclassified subsequently to profit or loss		
Remeasurements of post employment benefit obligations	7,505	26,245
Income tax effect	<u>(1,501)</u>	<u>(5,249)</u>
	<u>6,004</u>	<u>20,996</u>
Items that may be reclassified subsequently to profit or loss		
Gain/(loss) on cash flow hedges (net)	3	(131)
Income tax effect	<u>(9)</u>	<u>26</u>
	<u>(6)</u>	<u>(105)</u>
Total comprehensive income for the year	<u><u>88,127</u></u>	<u><u>(5,843)</u></u>

Brush Electrical Machines Limited
(Registration number: 00111849)
Balance Sheet as at 31 December 2016

	Note	2016 £ 000	2015 £ 000
Fixed assets			
Intangible assets	13	726	907
Property, plant and equipment	14	13,902	14,373
Investments	15	354,536	354,610
Retirement benefit assets	22	17,158	1,364
		<u>386,322</u>	<u>371,254</u>
Current assets			
Inventories	16	11,003	16,902
Trade and other receivables	17	80,350	69,128
Derivative financial instruments	27	382	113
Cash at bank and in hand		11,388	6,700
		<u>103,123</u>	<u>92,843</u>
Creditors: Amounts falling due within one year			
Trade and other payables	18	(41,671)	(107,358)
Derivative financial instruments	27	(1,234)	(821)
Provisions	20	(362)	(702)
		<u>(43,267)</u>	<u>(108,881)</u>
Creditors: Amounts falling due within one year			
Net current assets/(liabilities)		<u>59,856</u>	<u>(16,038)</u>
Total assets less current liabilities		<u>446,178</u>	<u>355,216</u>
Creditors: Amounts falling due after more than one year			
Trade and other payables	19	(304,308)	(304,308)
Creditors: Amounts falling due after more than one year		<u>(304,308)</u>	<u>(304,308)</u>
Deferred tax liabilities	21	(3,409)	(574)
Net assets		<u>138,461</u>	<u>50,334</u>
Capital and reserves			
Called up share capital	23	1,000	1,000
Hedging reserve		(229)	(223)
Other reserves		493	493
Profit and loss account		<u>137,197</u>	<u>49,064</u>
Shareholders' funds		<u>138,461</u>	<u>50,334</u>

Brush Electrical Machines Limited
(Registration number: 00111849)
Balance Sheet as at 31 December 2016

Approved by the Board on 4 August 2017 and signed on its behalf by:

A handwritten signature in black ink, consisting of a stylized 'G' followed by 'E' and 'Barnes', written over a horizontal dotted line.

G E Barnes
Director

Brush Electrical Machines Limited

Statement of Changes in Equity for the Year Ended 31 December 2016

	Share capital £ 000	Hedging reserve £ 000	Other reserves £ 000	Profit and loss account £ 000	Total £ 000
At 1 January 2015	1,000	(118)	493	54,802	56,177
Loss for the year	-	-	-	(26,734)	(26,734)
Other comprehensive income	-	(105)	-	20,996	20,891
Total comprehensive income	-	(105)	-	(5,738)	(5,843)
At 31 December 2015	1,000	(223)	493	49,064	50,334

	Share capital £ 000	Hedging reserve £ 000	Other reserves £ 000	Profit and loss account £ 000	Total £ 000
At 1 January 2016	1,000	(223)	493	49,064	50,334
Profit for the year	-	-	-	82,129	82,129
Other comprehensive income	-	(6)	-	6,004	5,998
Total comprehensive income	-	(6)	-	88,133	88,127
At 31 December 2016	1,000	(229)	493	137,197	138,461

Brush Electrical Machines Limited

Notes to the Financial Statements for the Year Ended 31 December 2016

1 General information

The Company is a private company limited by share capital incorporated in the United Kingdom and registered in England & Wales under the Companies Act. The nature of the Company's operations and its principal activity are set out in the Strategic Report.

The address of its registered office is:

11th Floor
The Colmore Building
20 Colmore Circus Queensway
Birmingham
West Midlands
B4 6AT

These financial statements were authorised for issue by the Board on 4 August 2017.

2 Accounting policies

Summary of significant accounting policies and key accounting estimates

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied, unless otherwise stated.

Basis of preparation

The Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. Accordingly, these financial statements were prepared in accordance with FRS 101 (Financial Reporting Standard 101) 'Reduced Disclosure Framework' as issued by the Financial Reporting Council.

The financial statements have been prepared on the historical cost basis, except for the revaluation of financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services.

Brush Electrical Machines Limited

Notes to the Financial Statements for the Year Ended 31 December 2016

2 Accounting policies (continued)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Summary of disclosure exemptions

As permitted by FRS 101 and where relevant, the Company has taken advantage of the disclosure exemptions available under that standard in relation to financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cashflow statement, standards not yet effective, impairment of assets and related party transactions. Where required, equivalent disclosures are given in the group financial statements of Melrose Industries PLC, which are available to the public and can be obtained from 11th Floor, The Colmore Building, 20 Colmore Circus Queensway, Birmingham, West Midlands, B4 6AT.

Going concern

The financial statements have been prepared on a going concern basis.

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. The Strategic Report describes the Company's objectives, policies and processes for managing its principal risks, including liquidity risk. The Company's forecasts and projections, including consideration of the availability of finance, show that the Company should be able to continue to operate for the foreseeable future.

After making enquiries and considering the above facts, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Exemption from preparing group accounts

These financial statements are separate financial statements. The Company is exempt from the preparation of consolidated financial statements, because it is included in the group financial statements of Melrose Industries PLC.

Exceptional operating items

Exceptional operating items are those items of a significant and non-recurring nature or those associated with significant restructuring programmes, acquisitions or disposals, which warrant separate additional disclosure in the financial statements in order to fully understand the underlying performance of the Company.

Brush Electrical Machines Limited

Notes to the Financial Statements for the Year Ended 31 December 2016

2 Accounting policies (continued)

Adoption of new and revised Standards

The Company has adopted all mandatory standards, interpretations and amendments that have become effective with effect from 1 January 2016. None of the standards, interpretations and amendments that are effective for the first time have had a material effect on the financial statements.

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and provision of services in the ordinary course of the Company's activities. Revenue is shown net of sales/value added tax, returns, rebates and discounts.

The Company recognises revenue when:

The amount of revenue can be reliably measured; it is probable that future economic benefits will flow to the entity; and specific criteria have been met for each of the Company's activities.

Finance income and costs policy

Finance income

Interest income is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Finance costs

Where financial liabilities are measured at amortised cost using the effective interest method, interest expense is recognised on an effective yield basis in profit or loss within finance costs.

Foreign currency transactions and balances

The financial statements are presented in pounds sterling, which is the currency of the primary economic environment in which the Company operates (its functional currency).

Transactions in currencies other than the functional currency are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for exchange differences on transactions entered into to hedge certain foreign currency risks.

Tax

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

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 substantively enacted by the balance sheet date. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Brush Electrical Machines Limited

Notes to the Financial Statements for the Year Ended 31 December 2016

2 Accounting policies (continued)

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Property, plant and equipment

Property, plant and equipment is stated at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The cost of property, plant and equipment includes directly attributable incremental costs incurred in their acquisition and installation.

Depreciation

Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost or valuation, less estimated residual value, of each asset on a straight-line basis over its expected useful life. Residual value is calculated on prices prevailing at the date of acquisition or revaluation. Useful lives and residual values are reviewed at the end of every reporting period. Depreciation is provided as follows:

Asset class	Depreciation rate
Plant and equipment	10 to 15 years

Brush Electrical Machines Limited

Notes to the Financial Statements for the Year Ended 31 December 2016

2 Accounting policies (continued)

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Internally-generated intangible assets - research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the development is recognised if, and only if, all of the following conditions have been demonstrated:

the technical feasibility of completing the intangible assets so that it will be available for use or sale;

the intention to complete the intangible asset and use or sell it;

the ability to use or sell the intangible asset;

how the intangible asset will generate probable future economic benefits;

the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible assets; and

the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in the profit and loss in the period in which it is incurred. Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Amortisation

Amortisation is provided on intangible assets so as to write off the cost, less any estimated residual value, on a straight-line basis over their expected useful economic life as follows:

Asset class	Amortisation rate
Computer software	5 years or less

Investments

Investments in subsidiaries are stated at cost less provision for impairment. Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably).

Brush Electrical Machines Limited

Notes to the Financial Statements for the Year Ended 31 December 2016

2 Accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and call deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at the transaction price. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for the impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method.

The cost of finished goods and work in progress comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and costs to be incurred in marketing, selling and distribution. If inventory is impaired, the carrying amount is reduced to its selling price less costs to complete and sell; the impairment loss is recognised immediately in profit or loss. Provision is made for obsolete, slow-moving or defective items where appropriate.

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method.

Brush Electrical Machines Limited

Notes to the Financial Statements for the Year Ended 31 December 2016

2 Accounting policies (continued)

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Restructurings

A restructuring provision is recognised when the Company has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

Warranties

Provisions for the expected cost of warranty obligations under local sale of goods legislation are recognised at the date of sale of the relevant products, at the Directors' best estimate of the expenditure required to settle the Company's obligation.

Leases

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term.

Brush Electrical Machines Limited

Notes to the Financial Statements for the Year Ended 31 December 2016

2 Accounting policies (continued)

Impairment of non-financial assets

At each balance sheet date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Share capital

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

Defined contribution pension obligation

A defined contribution plan is a pension plan under which fixed contributions are paid into a separate entity and the Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans contributions are paid publicly or privately administered pension insurance plans on a mandatory or contractual basis. The contributions are recognised as an employee benefit expense when they are due. If contribution payments exceed the contribution due for service, the excess is recognised as an asset.

Brush Electrical Machines Limited

Notes to the Financial Statements for the Year Ended 31 December 2016

2 Accounting policies (continued)

Defined benefit pension obligation

Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date minus the fair value of plan assets. The defined benefit obligation is measured using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future payments by reference to market yields at the reporting date on high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses are charged or credited to other comprehensive income in the period in which they arise.

Past-service costs are recognised immediately in profit or loss.

Financial assets and liabilities

Classification

Financial assets and financial liabilities are recognised in the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Brush Electrical Machines Limited

Notes to the Financial Statements for the Year Ended 31 December 2016

2 Accounting policies (continued)

Recognition and measurement

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Brush Electrical Machines Limited

Notes to the Financial Statements for the Year Ended 31 December 2016

2 Accounting policies (continued)

Impairment

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the differences between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Brush Electrical Machines Limited

Notes to the Financial Statements for the Year Ended 31 December 2016

2 Accounting policies (continued)

Financial liabilities

Classification

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Recognition and measurement

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

Brush Electrical Machines Limited

Notes to the Financial Statements for the Year Ended 31 December 2016

2 Accounting policies (continued)

Derivatives and hedging

Derivative financial instruments

The Company enters into a variety of derivative financial instruments to manage its exposure to risks.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Company designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges).

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Brush Electrical Machines Limited

Notes to the Financial Statements for the Year Ended 31 December 2016

2 Accounting policies (continued)

Hedge accounting

The Company designates certain hedging instruments as either fair value hedges or cash flow hedges. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in the line of the income statement relating to the hedged item.

Hedge accounting is discontinued when the Company revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the 'other gains and losses' line item.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the income statement as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Company revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income at that time is accumulated in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

Brush Electrical Machines Limited

Notes to the Financial Statements for the Year Ended 31 December 2016

3 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements, including those involving key sources of estimation uncertainty, that the Directors have made in the process of applying the Company's accounting policies. These have the most significant effect on the amounts recognised in the financial statements or have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of non-current assets, including investments in subsidiaries

Non-current assets are tested for impairment whenever events or circumstances indicate that their carrying amounts might be impaired. Such events and circumstances would include the effects of restructuring initiated by management.

Where such events and circumstances are identified, to determine whether non-current assets are impaired requires an estimation of the asset's recoverable amount. Management use their judgement in estimating the recoverable amount of each asset, which may be based upon the asset's value in use or its fair value less costs to sell. Where applicable, the value in use calculation requires management to estimate the future cash flows expected to arise from the asset and a suitable discount rate in order to calculate the net present value. Such calculations require judgement relating to the appropriate discount factors and long-term growth prevalent in a particular market as well as short and medium term business plans. Management draw upon experience as well as external resources in making these judgements.

Provisions

The quantification of certain liabilities within provisions have been estimated using the best information available. However, such liabilities depend on the actions of third parties and on the specific circumstances pertaining to each obligation, neither of which is controlled by the Company. Although provisions are reviewed on a regular basis and adjusted for management's best current estimates, the judgemental nature of these items means that future amounts settled may be different from those provided.

Brush Electrical Machines Limited

Notes to the Financial Statements for the Year Ended 31 December 2016

3 Critical accounting judgements and key sources of estimation uncertainty (continued)

Retirement benefit obligations

Retirement benefits are accounted for under IAS 19 (revised): "Employee benefits". For defined benefit plans, obligations are measured at the discounted present value whilst plan assets are recorded at fair value. Because of changing market and economic conditions, the expenses and liabilities actually arising under the plans in the future may differ materially from the estimates made on the basis of these actuarial assumptions. Therefore, declining returns on equity markets and markets for fixed-income instruments could necessitate additional contributions to the plans in order to cover future pension obligations. Also, higher or lower withdrawal rates or longer or shorter life of participants may have an impact on the amount of pension income or expense recorded in the future.

The discount rate used to discount retirement benefit obligations to present value is derived from the yields of senior, high-quality corporate bonds at the Balance Sheet date. These generally include AA-rated securities. The discount rate is based on the market yield of a portfolio of bonds whose weighted residual maturities approximately correspond to the duration necessary to cover the entire benefit obligation.

Pension and other retirement benefits are inherently long-term and future experience may differ from the actuarial assumptions used to determine the net charge for retirement benefit obligations. Note 22 to these financial statements describes the principal discount rate, earnings increase and pension retirement benefit obligation assumptions that have been used to determine the net charge for retirement benefit obligations in accordance with IAS 19 (revised): "Employee benefits". The calculation of any charge relating to retirement benefit obligations is clearly dependent on the assumptions used, which reflects the exercise of judgement. The assumptions adopted are based on prior experience, market conditions and the advice of actuaries.

Taxation

The Company is subject to UK income tax. Management is required to exercise judgement in determining the Company's provision for income taxes. Management's judgement is required in estimating tax provisions where additional current tax may become payable in the future following the audit by the tax authorities of previously filed tax returns. Management's judgement may also be required as to whether a deferred tax asset should be recognised based on the availability of future taxable profits. While the Company aims to ensure that the estimates recorded are accurate, the actual amounts could be different from those expected.

4 Revenue

The analysis of the Company's revenue for the year from continuing operations is as follows:

	2016 £ 000	2015 £ 000
Sale of goods	62,460	69,524
Rendering of services	9,259	7,935
Turnover	<u>71,719</u>	<u>77,459</u>
Interest receivable and similar income	1,698	1,008
Income from shares in group undertakings	<u>75,743</u>	<u>16,400</u>
	<u>77,441</u>	<u>17,408</u>
Total revenue as defined by IAS 18	<u>149,160</u>	<u>94,867</u>

Brush Electrical Machines Limited

Notes to the Financial Statements for the Year Ended 31 December 2016

4 Revenue (continued)

The analysis of the Company's turnover for the year by geographical market is as follows:

	2016 £ 000	2015 £ 000
United Kingdom	3,273	11,445
Europe	20,245	21,337
North America	30,391	26,127
Asia	13,051	12,551
Rest of the world	4,759	5,999
	<u>71,719</u>	<u>77,459</u>

The analysis of the Company's turnover for the year by class of business is as follows:

	2016 £ 000	2015 £ 000
Energy	9,777	17,789
Utilities	3,334	18,099
Oil & gas	3,189	7,268
Industrials	21,242	7,625
Aftermarket	34,177	26,678
	<u>71,719</u>	<u>77,459</u>

5 Exceptional operating items

Included within operating profit/(loss) are the following items of a significant and non-recurring nature which warrant separate disclosure in the financial statements in order to fully understand the underlying performance of the Company.

	2016 £ 000	2015 £ 000
Impairment of investment in subsidiaries	(74)	(41,674)
Reorganisation costs	(2,791)	(5,216)
Impairment of loan receivables	(909)	-
	<u>(3,774)</u>	<u>(46,890)</u>

Brush Electrical Machines Limited

Notes to the Financial Statements for the Year Ended 31 December 2016

5 Exceptional operating items (continued)

During the year, a review of the carrying value of the Company's investments in subsidiaries identified impairments with a total value of £74,000. A similar review in 2015 identified impairments of £41,674,000.

A restructuring programme was announced during the year to realign the cost base of the Company to be in line with the reduced levels of revenue being generated by the business. The total costs expected to be incurred as a result of this restructure are £2,791,000. A similar programme in 2015 resulted in costs of £5,216,000.

During the year, a review of the carrying value of the Company's loan receivable balances identified impairments with a total value of £909,000.

6 Operating profit/(loss)

Arrived at after charging/(crediting)

	2016 £ 000	2015 £ 000
Depreciation expense	1,744	1,709
Amortisation expense	304	281
Impairment loss	74	41,674
Research and development spend	797	39
Foreign exchange (gains)/losses	(5,180)	1,055
Staff costs	23,855	30,028
Operating lease rentals	51	103
Cost of inventories recognised as expense	52,773	54,092
Write downs of inventory	105	178
Profit on disposal of property, plant and equipment	(1)	-

7 Auditors' remuneration

	2016 £ 000	2015 £ 000
Audit of the financial statements	87	73

8 Interest receivable and similar income

	2016 £ 000	2015 £ 000
Interest on loans to Group undertakings	1,698	1,008

Brush Electrical Machines Limited

Notes to the Financial Statements for the Year Ended 31 December 2016

9 Interest payable and similar charges

	2016 £ 000	2015 £ 000
Interest on bank overdrafts and borrowings	79	242
Interest on loans from Group undertakings	543	532
Net interest (benefit)/cost on pensions	(326)	900
Preference share dividends	1,211	1,522
	<u>1,507</u>	<u>3,196</u>

10 Staff costs

The aggregate payroll costs (including directors' remuneration) were as follows:

	2016 £ 000	2015 £ 000
Wages and salaries	20,626	25,918
Social security costs	2,125	2,684
Pension costs, defined contribution scheme	1,104	1,426
	<u>23,855</u>	<u>30,028</u>

The average number of persons employed by the Company (including directors) during the year, analysed by category was as follows:

	2016 No.	2015 No.
Production	419	520
Sales, marketing and distribution	39	62
Administration and support	54	124
	<u>512</u>	<u>706</u>

11 Directors' remuneration

The Directors received no remuneration for their services to the Company during the year (year ended 31 December 2015: £nil). The Directors of the Company who served during the year were also Directors of a number of the companies within the Melrose Group and as such remuneration of directors is borne by a fellow company.

Brush Electrical Machines Limited

Notes to the Financial Statements for the Year Ended 31 December 2016

12 Income tax

Tax charged/(credited) in the income statement

	2016 £ 000	2015 £ 000
Current taxation		
UK corporation tax	-	133
Total current income tax	-	133
Deferred taxation		
Arising from origination and reversal of temporary differences	1,325	161
Tax charge in the income statement	1,325	294

The tax on profit before tax for the year is lower than the standard rate of corporation tax in the UK (2015: higher than the standard rate of corporation tax in the UK) of 20% (2015: 20.25%).

The differences are reconciled below:

	2016 £ 000	2015 £ 000
Profit/(loss) before tax	83,454	(26,440)
Corporation tax at standard rate	16,691	(5,354)
Adjustment for prior periods	(600)	56
Non-taxable income	(15,149)	(3,321)
Expenses not deductible in determining taxable profit	424	8,771
Withholding taxes	-	133
Effect of rate differences on deferred tax recognition	(41)	9
Total tax charge	1,325	294
Tax recognised in other comprehensive income		

In addition to the amounts recognised in the income statement, the following amounts relating to tax have been recognised in other comprehensive income:

	2016 £ 000	2015 £ 000
Deferred tax		
Financial instruments treated as cash flow hedges	9	(26)
Retirement benefit obligations	1,501	5,249
	1,510	5,223

Brush Electrical Machines Limited

Notes to the Financial Statements for the Year Ended 31 December 2016

12 Income tax (continued)

A further change to the main rate of UK corporation tax was enacted in the Finance Act 2016. The UK corporation tax rate will reduce to 19% from 1 April 2017 with a further reduction to 17% from 1 April 2020. The impact of these future rate changes, which have been reflected within these financial statements, has reduced the deferred tax liability by £162,000.

Changes to the UK loss utilisation and interest deduction rules have been proposed and will take effect on 1 April 2017. These changes have not yet been substantively enacted, so the effect of these changes has not been recognised within these financial statements. The impact is likely to result in a decrease in the deferred tax liability of £94,000.

Brush Electrical Machines Limited

Notes to the Financial Statements for the Year Ended 31 December 2016

13 Intangible assets

	Computer software £ 000	Total £ 000
Cost or valuation		
At 1 January 2016	2,632	2,632
Additions	123	123
At 31 December 2016	<u>2,755</u>	<u>2,755</u>
Amortisation		
At 1 January 2016	1,725	1,725
Amortisation charge	304	304
At 31 December 2016	<u>2,029</u>	<u>2,029</u>
Carrying amount		
At 31 December 2016	<u>726</u>	<u>726</u>
At 31 December 2015	<u>907</u>	<u>907</u>

14 Property, plant and equipment

	Plant and equipment £ 000	Total £ 000
Cost or valuation		
At 1 January 2016	52,479	52,479
Additions	1,277	1,277
Disposals	(16)	(16)
At 31 December 2016	<u>53,740</u>	<u>53,740</u>
Depreciation		
At 1 January 2016	38,106	38,106
Charge for the year	1,744	1,744
Eliminated on disposal	(12)	(12)
At 31 December 2016	<u>39,838</u>	<u>39,838</u>
Carrying amount		
At 31 December 2016	<u>13,902</u>	<u>13,902</u>
At 31 December 2015	<u>14,373</u>	<u>14,373</u>

Brush Electrical Machines Limited

Notes to the Financial Statements for the Year Ended 31 December 2016

15 Investments

Subsidiaries	£ 000
Cost or valuation	
At 1 January 2015	442,897
At 31 December 2015	442,897
At 1 January 2016	442,897
At 31 December 2016	442,897
Provision for impairment	
At 1 January 2015	46,613
Provision created	41,674
At 31 December 2015	88,287
At 1 January 2016	88,287
Provision created	74
At 31 December 2016	88,361
Carrying amount	
At 31 December 2016	354,536
At 31 December 2015	354,610
At 1 January 2015	396,284

A review of the carrying value of investments during the year identified impairments totalling £74,000 (2015: £41,674,000). The impairment in year ended 31 December 2016 is for the investment in Brush Japan.

The prior year impairment of £41,674,000 related to the Company's investment in Brush SEM s.r.o. A detailed impairment review was performed by management to assess the recoverability of this investment at the year end.

This review involved management estimating future cash flows expected to arise from the investment and also to estimate a suitable discount rate in order to calculate present value. Management are able to draw on their experience as well as external sources in order to make their estimates.

The forecasts, prepared using a methodology required by IAS 36: 'Impairment of assets', show headroom of £2.8 million above the carrying amount for the investment in SEM. In accordance with IAS 36 a sensitivity analysis has been undertaken and a reasonably possible increase in the post tax discount rate from 8.8% to 8.9% would reduce headroom to £nil. A reasonably possible decrease in the growth rate from 2.2% to 2.1% would also reduce headroom to £nil.

As a result of the work performed, management considered the carrying value of the investment in Brush SEM s.r.o to be recoverable and no impairment has therefore been recognised during the year.

Brush Electrical Machines Limited

Notes to the Financial Statements for the Year Ended 31 December 2016

15 Investments (continued)

Details of the subsidiaries as at 31 December 2016 and 31 December 2015 are as follows:

Name of subsidiary	Principal activity	Country of incorporation and principal place of business	Proportion of ownership interest and voting rights held	
			2016	2015
Brush Scheme Trustees Limited*	Dormant	11th Floor, The Colmore Building, 20 Colmore Circus Queensway, Birmingham, B4 6AT, United Kingdom	100%	100%
Brush SEM s.r.o.*	Engineering company	Edvarda Benese 564/39, Doudlevce, 301 00 Plzen, Czech Republic	100%	100%
Brush HMA B.V.*	Engineering company	Ringdijk 390B, 2983 GS, Postbus 3007, 2980 DA, Ridderkerk, The Netherlands	100%	100%
Brush Japan KK*	Engineering company	1139 The Soho, 2-7-4, Aomi, Koto-Ku, Tokyo, 135-0064, Japan	100%	100%
Harrington Generators International Limited*	Engineering company	11th Floor, The Colmore Building, 20 Colmore Circus Queensway, Birmingham, B4 6AT, United Kingdom	100%	100%
Brush Transformers Limited*	Engineering company	11th Floor, The Colmore Building, 20 Colmore Circus Queensway, Birmingham, B4 6AT, United Kingdom	100%	100%
Brush Aftermarket North America Inc*	Holding company	601 Braddock Avenue, Turtle Creek, Pittsburgh, Pennsylvania, 15145, USA	100%	100%
Brush Canada Services Inc/Services Brush Canada Inc*	Engineering company	Edmonton, Alberta, T5J 3N6, Canada	100%	100%
Hawker Siddeley Switchgear Limited*	Engineering company	11th Floor, The Colmore Building, 20 Colmore Circus Queensway, Birmingham, B4 6AT, United Kingdom	100%	100%
Brush Electrical Engineering Company Limited*	Dormant	11th Floor, The Colmore Building, 20 Colmore Circus Queensway, Birmingham, B4 6AT, United Kingdom	100%	100%

Brush Electrical Machines Limited

Notes to the Financial Statements for the Year Ended 31 December 2016

15 Investments (continued)

Generator and Motor Services of Pennsylvania LLC	Engineering company	601 Braddock Avenue, Turtle Creek, Pittsburgh, Pennsylvania, 15145, USA	100%	100%
Brush Electrical Machines (Changshu) Co Limited	Engineering company	8 Changhong Road, Changshu Economic Development Zone, Jiangsu Province, 215500, China	100%	100%
Brush Turbogenerators Inc	Engineering company	15110 Northwest Freeway, Suite 150, Houston, Texas, 77040, USA	100%	100%
Brush Switchgear Limited	Dormant	11th Floor, The Colmore Building, 20 Colmore Circus Queensway, Birmingham, B4 6AT, United Kingdom	100%	100%
Bristol Meci Australasia Pty Limited	Holding company	2 Frawley Avenue, Narangba, Queensland, 4504, Australia	100%	100%
Hawker Siddeley Switchgear Pty Limited	Engineering company	2 Frawley Avenue, Narangba, Queensland, 4504, Australia	100%	100%
Mediterranean Power Electric Company Limited	Engineering company	Marsa Industrial Estate, Marsa, MRS 3000, Malta	26%	26%

* owned directly by the Company

All holdings relate to Ordinary Shares unless otherwise stated.

16 Inventories

	2016 £ 000	2015 £ 000
Raw materials and consumables	2,757	2,879
Work in progress	6,511	8,506
Finished goods and goods for resale	1,735	5,517
	<u>11,003</u>	<u>16,902</u>

Brush Electrical Machines Limited

Notes to the Financial Statements for the Year Ended 31 December 2016

17 Trade and other receivables

	2016 £ 000	2015 £ 000
Trade receivables	14,102	18,058
Provision for impairment of trade receivables	(229)	(349)
Net trade receivables	13,873	17,709
Receivables from Group undertakings	62,382	49,855
Prepayments and accrued income	4,074	1,463
Other receivables	21	101
Total trade and other receivables	<u>80,350</u>	<u>69,128</u>

18 Trade and other payables - amounts falling due within one year

	2016 £ 000	2015 £ 000
Trade payables	3,774	9,351
Accruals and deferred income	7,678	2,777
Amounts due to Group undertakings	28,385	93,835
Social security and other taxes	681	-
Payments on account	701	1,346
Other payables	452	49
	<u>41,671</u>	<u>107,358</u>

19 Trade and other payables - amounts falling due after more than one year

	2016 £ 000	2015 £ 000
Preference shares	<u>304,308</u>	<u>304,308</u>

Further details regarding preference shares are set out in note 23.

Brush Electrical Machines Limited

Notes to the Financial Statements for the Year Ended 31 December 2016

20 Provisions

	Warranties £ 000	Restructuring £ 000	Total £ 000
At 1 January 2016	402	300	702
Additional provisions charged	215	3,041	3,256
Provisions utilised	(143)	(3,091)	(3,234)
Unused provision reversed	(362)	-	(362)
At 31 December 2016	<u>112</u>	<u>250</u>	<u>362</u>
Current liabilities	<u>112</u>	<u>250</u>	<u>362</u>

The provision for product warranties relates to expected warranty claims on products sold and is expected to be utilised within three years of the balance sheet date.

The provision for restructuring relates to reorganisation plans which have been announced in order to realign the cost base of the business with the reduced level of revenue which is being experienced due to the current difficult end market conditions. The majority of the provisions created during the year have also been utilised. The remaining amounts outstanding in this provision are expected to be utilised within one year of the balance sheet date.

21 Deferred tax

Deferred tax assets and liabilities are offset where the Company has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	Assets £ 000	Liabilities £ 000	Net £ 000
2016			
Accelerated tax depreciation	-	(1,089)	(1,089)
Other temporary differences	-	47	47
Tax losses	-	550	550
Retirement benefit obligations	-	(2,917)	(2,917)
	<u>-</u>	<u>(3,409)</u>	<u>(3,409)</u>
 2015			
Accelerated tax depreciation	-	(1,255)	(1,255)
Other temporary differences	-	268	268
Tax losses	-	686	686
Retirement benefit obligations	-	(273)	(273)
	<u>-</u>	<u>(574)</u>	<u>(574)</u>

Brush Electrical Machines Limited

Notes to the Financial Statements for the Year Ended 31 December 2016

21 Deferred tax (continued)

	Accelerated tax depreciation £ 000	Other temporary differences £ 000	Tax losses £ 000	Retirement benefit obligations £ 000
At 1 January 2015	(1,208)	338	-	5,680
Recognised in income	(47)	(96)	686	(704)
Recognised in equity	-	26	-	(5,249)
At 31 December 2015	<u>(1,255)</u>	<u>268</u>	<u>686</u>	<u>(273)</u>
				Total £ 000
At 1 January 2015				4,810
Recognised in income				(161)
Recognised in equity				(5,223)
At 31 December 2015				<u>(574)</u>
	Accelerated tax depreciation £ 000	Other temporary differences £ 000	Tax losses £ 000	Retirement benefit obligations £ 000
At 1 January 2016	(1,255)	268	686	(273)
Recognised in income	166	(212)	(136)	(1,143)
Recognised in equity	-	(9)	-	(1,501)
At 31 December 2016	<u>(1,089)</u>	<u>47</u>	<u>550</u>	<u>(2,917)</u>
				Total £ 000
At 1 January 2016				(574)
Recognised in income				(1,325)
Recognised in equity				(1,510)
At 31 December 2016				<u>(3,409)</u>

Brush Electrical Machines Limited

Notes to the Financial Statements for the Year Ended 31 December 2016

22 Pension schemes

Defined contribution pension scheme

The Company operates a defined contribution pension scheme. The assets of the schemes are held separately from those of the Company in funds under the control of trustees. The pension cost charge for the year represents contributions payable by the Company to the scheme and amounted to £1,104,000 (2015: £1,426,000).

There were no amounts prepaid or payable to the scheme at the end of the current year or the prior year.

Defined benefit pension schemes

Brush Group (2013) Pension Plan

The Company sponsors a defined benefit plan for qualifying employees. The plan is closed to new members and the accrual of future benefits for existing members.

The funded defined benefit plan is administered by a separate fund that is legally separated from the Company. The trustees of the fund are required by law to act in the interest of the fund and of all relevant stakeholders in the plan. The trustees of the pension fund are responsible for the investment policy with regard to the assets of the fund.

The cost of the Company's defined benefit plans are determined in accordance with IAS 19 (revised): "Employee benefits" with the advice of independent professionally qualified actuaries on the basis of formal actuarial valuations using the projected unit credit method.

The most recent full actuarial valuation of the scheme was performed at 31 December 2014. The full actuarial valuation has been updated at 31 December 2016 by independent actuaries.

Contributions payable to the pension scheme at the end of the year are £Nil (2015: £Nil).

The expected contributions to the plan for the next reporting period are £Nil.

Following agreement with the Brush Group (2013) Pension Plan Trustees, the Group has contributed £8,750,007 early to the Brush UK Pension Plan in the year ending 31 December 2016. No contributions are expected to be made in the year ending 31 December 2017.

Reconciliation of scheme assets and liabilities to assets and liabilities recognised

The amounts recognised in the statement of financial position are as follows:

	2016 £ 000	2015 £ 000
Fair value of scheme assets	253,553	197,112
Present value of scheme liabilities	(236,395)	(195,748)
Defined benefit pension scheme surplus	<u>17,158</u>	<u>1,364</u>

Scheme assets

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

Brush Electrical Machines Limited

Notes to the Financial Statements for the Year Ended 31 December 2016

22 Pension schemes (continued)

	2016 £ 000	2015 £ 000
Fair value at start of year	197,112	197,400
Interest income	7,395	6,900
Return on plan assets, excluding amounts included in interest income	50,476	(5,112)
Employer contributions	8,750	4,988
Benefits paid	(9,393)	(6,495)
Administrative expenses paid	(787)	(569)
Fair value at end of year	<u>253,553</u>	<u>197,112</u>

Analysis of assets

The major categories of scheme assets are as follows:

	2016 £ 000	2015 £ 000
Cash and cash equivalents	1,553	1,667
Equity instruments	77,391	64,824
Debt instruments	<u>174,609</u>	<u>130,621</u>
	<u>253,553</u>	<u>197,112</u>

The assets are well diversified and the majority of plan assets have quoted prices in active markets. All government bonds are issued by reputable governments and are generally AA rated or higher. Interest rate and inflation rate swaps are also employed to complement the role of fixed and index-linked bond holdings for liability risk management.

The trustees continually review whether the chosen investment strategy is appropriate with a view to providing the pension benefits and to ensure appropriate matching of risk and return profiles. The main strategic policies include maintaining an appropriate asset mix, managing interest rate sensitivity and maintaining an appropriate equity buffer. Investment results are regularly reviewed.

The pension scheme has not invested in any of the company's own financial instruments or in properties or other assets used by the company.

Actual return on scheme's assets

	2016 £ 000	2015 £ 000
Actual return on scheme assets	<u>57,871</u>	<u>1,788</u>

Scheme liabilities

Changes in the present value of scheme liabilities are as follows:

Brush Electrical Machines Limited

Notes to the Financial Statements for the Year Ended 31 December 2016

22 Pension schemes (continued)

	2016 £ 000	2015 £ 000
Present value at start of year	195,748	225,800
Actuarial gains and losses arising from changes in demographic assumptions	(2,907)	(15,162)
Actuarial gains and losses arising from changes in financial assumptions	47,634	(11,668)
Actuarial gains and losses arising from experience adjustments	(1,756)	(4,527)
Interest cost	7,069	7,800
Benefits paid	(9,393)	(6,495)
Present value at end of year	<u>236,395</u>	<u>195,748</u>

Principal actuarial assumptions

The significant actuarial assumptions used to determine the present value of the defined benefit obligation at the statement of financial position date are as follows:

	2016 %	2015 %
Discount rate	2.70	3.70
Future pension increases	3.30	3.00
Inflation	<u>3.30</u>	<u>3.00</u>

Post retirement mortality assumptions

	2016 Years	2015 Years
Current UK pensioners at retirement age - male	21.40	20.30
Current UK pensioners at retirement age - female	23.60	22.30
Future UK pensioners at retirement age - male	22.80	22.00
Future UK pensioners at retirement age - female	<u>25.10</u>	<u>23.90</u>

Mortality assumptions for the most significant plan in the Group, the FKI UK plan, as at 31 December 2016 are based on the Self Administered Pension Scheme ("SAPS") "S1" base tables with scaling factors of 110% and 105% for deferred members and pensioners respectively, which reflect the results of a mortality analysis carried out on the plan's membership. Future improvements are in line with the Continuous Mortality Investigation ("CMI") improvement model with a long-term rate of improvement of 1.25% p.a. for both males and females.

Amounts recognised in the income statement

Brush Electrical Machines Limited

Notes to the Financial Statements for the Year Ended 31 December 2016

22 Pension schemes (continued)

	2016 £ 000	2015 £ 000
Amounts recognised in operating profit		
Administrative expenses paid	787	569
Amounts recognised in finance income or costs		
Net interest	(326)	900
Total recognised in the income statement	<u>461</u>	<u>1,469</u>

Amounts taken to the Statement of Comprehensive Income

	2016 £ 000	2015 £ 000
Actuarial gains and losses arising from changes in demographic assumptions	-	15,162
Actuarial gains and losses arising from changes in financial assumptions	(42,971)	11,668
Actuarial gains and losses arising from experience adjustments	-	4,527
Return on plan assets, excluding amounts included in interest income	50,476	(5,112)
Amounts recognised in the Statement of Comprehensive Income	<u>7,505</u>	<u>26,245</u>

Sensitivity analysis

A sensitivity analysis for the principal assumptions used to measure scheme liabilities is set out below:

	+ 0.1% £ 000	2016 0.0% £ 000	- 0.1% £ 000	+ 0.1% £ 000	2015 - 0.1% £ 000
Adjustment to discount rate					
Present value of total obligation	(4,600)	-	4,700	(3,500)	3,600
Adjustment to rate of inflation					
Present value of total obligation	4,100	-	(1,300)	3,000	(1,300)
Adjustment to mortality age rating assumption					
Present value of total obligation	8,300	-	(7,400)	5,400	(5,200)

Brush Electrical Machines Limited

Notes to the Financial Statements for the Year Ended 31 December 2016

23 Share capital

Allotted, called up and fully paid shares

	2016		2015	
	Number	£ 000	Number	£ 000
Ordinary shares of £1 each	<u>1,000,000</u>	<u>1,000</u>	<u>1,000,000</u>	<u>1,000</u>

In addition to ordinary shares, the Company has 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 (note 19). These preference shares are presented as a liability in these financial statements.

Entitlement to dividends: - 'A' and 'B' preference shareholders are entitled to a cumulative cash dividend which accrues on a daily basis 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 of the dividends 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; and 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.

24 Reserves

The changes to each component of equity resulting from items of other comprehensive income for the current year were as follows:

	Hedging reserve £ 000	Profit and loss account £ 000	Total £ 000
Loss on cash flow hedges	(6)	-	(6)
Remeasurements of post employment benefit obligations	<u>-</u>	<u>6,004</u>	<u>6,004</u>
	<u>(6)</u>	<u>6,004</u>	<u>5,998</u>

The changes to each component of equity resulting from items of other comprehensive income for the prior year were as follows:

Brush Electrical Machines Limited

Notes to the Financial Statements for the Year Ended 31 December 2016

24 Reserves (continued)

	Hedging reserve £ 000	Profit and loss account £ 000	Total £ 000
Loss on cash flow hedges	(105)	-	(105)
Remeasurements of post employment benefit obligations	-	20,996	20,996
	<u>(105)</u>	<u>20,996</u>	<u>20,891</u>

Hedging reserve

The hedging reserve represents the cumulative amount of gains and losses on hedging instruments deemed effective in cash flow hedges. The cumulative deferred gain or loss on the hedging instrument is recognised in profit or loss only when the hedged transaction impacts the profit or loss, or is included as a basis adjustment to the non-financial hedged item, consistent with the applicable accounting policy.

25 Obligations under leases and hire purchase contracts

Operating leases

The total future value of minimum lease payments is as follows:

	2016 £ 000	2015 £ 000
Within one year	4	25
In two to five years	21	10
	<u>25</u>	<u>35</u>

The amount of non-cancellable operating lease payments recognised as an expense during the year was £51,000 (2015: £103,000).

26 Commitments

Capital commitments

Capital commitments are as follows:

	2016 £ 000	2015 £ 000
Contracted for additions to property, plant & equipment	4	96
Contracted for additions to intangible assets	13	14
	<u>17</u>	<u>110</u>

Brush Electrical Machines Limited

Notes to the Financial Statements for the Year Ended 31 December 2016

27 Financial instruments

Financial instruments recognised at fair value in the Balance Sheet

The following table sets out the Company's derivative financial instruments that are measured at fair value:

2016	Assets	Liabilities	Net
Derivative financial instruments	£ 000	£ 000	£ 000
Foreign currency forward contracts	382	(1,234)	(852)

The maturity of derivative financial instruments is as follows:

2016	Assets	Liabilities	Net
Derivative financial instruments	£ 000	£ 000	£ 000
Within one year	382	(1,234)	(852)

2015	Assets	Liabilities	Net
Derivative financial instruments	£ 000	£ 000	£ 000
Foreign currency forward contracts	113	(821)	(708)

The maturity of derivative financial instruments is as follows:

2015	Assets	Liabilities	Net
Derivative financial instruments	£ 000	£ 000	£ 000
Within one year	113	(821)	(708)

Valuation techniques and assumptions applied for the purposes of measuring fair value

The fair values of financial assets and financial liabilities are determined as follows:

The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).

The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.

Brush Electrical Machines Limited

Notes to the Financial Statements for the Year Ended 31 December 2016

27 Financial instruments (continued)

Derivatives

The Company enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risk, including foreign exchange forward contracts.

It is the policy of the Company to enter into forward foreign exchange contracts to cover specific foreign currency payments and receipts for material contracts. The Company also enters into forward foreign exchange contracts to manage the risk associated with anticipated sales and purchase transactions out to 12 months within 60 percent to 80 percent of the exposure generated. Basis adjustments are made to the carrying amounts of non-financial hedged items when the anticipated sale or purchase transaction takes place.

28 Controlling party

The Company's immediate parent company is Brush Holdings Limited, a company incorporated in England & Wales.

The ultimate parent company and controlling party is Melrose Industries PLC, a company incorporated in England & Wales.

The parent of the smallest and largest group in which these financial statements are consolidated is Melrose Industries PLC, incorporated in England & Wales.

Consolidated financial statements are available from:

11th Floor, The Colmore Building, 20 Colmore Circus Queensway, Birmingham, West Midlands, B4 6AT.