

Registration number: 00111849

Brush Electrical Machines Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2013

FRIDAY



A3GQYMAX

A31

19/09/2014

#126

COMPANIES HOUSE

Brush Electrical Machines Limited

Contents

Company Information	1
Strategic Report	2 to 4
Directors' Report	5 to 6
Statement of Directors' Responsibilities	7
Independent Auditor's Report	8 to 9
Profit and Loss Account	10
Statement of Total Recognised Gains and Losses	11
Balance Sheet	12
Notes to the Financial Statements	13 to 32

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	A D C Westley
Registered office	11th Floor
	Colmore Plaza
	20 Colmore Circus Queensway
	Birmingham
	West Midlands
Auditor	B4 6AT
	Deloitte LLP
	Birmingham
	United Kingdom

Brush Electrical Machines Limited

Strategic Report for the Year Ended 31 December 2013

The Directors present their strategic report for the year ended 31 December 2013.

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 2013 was £172,561,000 (year ended 31 December 2012: £203,340,000). The operating loss for the year ended 31 December 2013 was £6,570,000 (year ended 31 December 2012: profit of £28,924,000). The retained profit for the year ended 31 December 2013 was £12,682,000 (year ended 31 December 2012: profit of £27,306,000).

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 2013 Annual Report.

Turnover declined by 15% during the year, primarily as a result of a weakening market for OEM equipment. Growth in the aftermarket business helped to offset some of the fall in OEM volumes and the Directors are confident of further progress in the aftermarket business during 2014. Operating profit, excluding the impact of exceptional operating items, fell by 25% during the year as a consequence of the lower overall revenues.

A combination of product cost reduction initiatives along with a number of significant capital investment programmes in the machining sector which are being implemented during 2014 are expected to provide cost, quality and lead time improvements which will place the business in a strong position to take advantage when the OEM market recovery takes place.

On 10 July 2013, a reorganisation of the FKI UK Pension Plan took place which resulted in the separation of the FKI UK Pension Plan into three separate plans. One of these plans, the Brush Group (2013) Pension Scheme, contains the assets and liabilities in respect of employees and former employees of the Brush business. From 10 July 2013, the assets and liabilities of the Brush Group (2013) Pension Scheme have therefore been recognised within the Company's balance sheet and this resulted in an exceptional operating expense during the year of £28,300,000 which is equivalent to the net liabilities assumed at 10 July 2013.

Principal risks and uncertainties

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 2013

Credit risk

The Company's principal financial assets are bank balances and trade and other receivables.

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

Liquidity risk

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

Cash flow risk

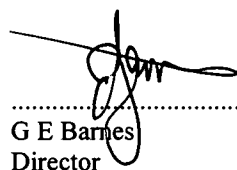
The Company's activities expose it to the financial risks of changes in foreign currency exchange rates. The Company uses foreign exchange forward contracts to hedge these exposures.

Brush Electrical Machines Limited
Strategic Report for the Year Ended 31 December 2013

Going concern

The Directors have considered the going concern assumption given the current uncertain economic climate and the net current liabilities of the Company, and have reviewed the Company forecast and considered the financial commitment from the ultimate parent company, which has been confirmed in writing, 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. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Approved by the Board on 17 September 2014 and signed on its behalf by:


.....
G E Barnes
Director

Brush Electrical Machines Limited

Directors' Report for the Year Ended 31 December 2013

The Directors present their report and the audited financial statements for the year ended 31 December 2013.

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

Dividends

The Directors do not recommend the payment of a dividend in the year (year ended 31 December 2012: £nil).

Employment of disabled persons

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

Employee involvement

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 £45,000 during the year (year ended 31 December 2012: £34,000).

Directors' indemnities

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.

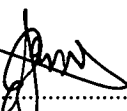
Brush Electrical Machines Limited
Directors' Report for the Year Ended 31 December 2013

Disclosure of information to the auditor

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 17 September 2014 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 Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and 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 2013, set out on pages 10 to 32. 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).

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

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities (set out on page 7), the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. 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 (APB's) Ethical Standards for Auditors.

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 2013 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 matter prescribed by the Companies Act 2006

In our opinion 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.

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, Chartered Accountants and Statutory Auditor

Birmingham
United Kingdom

17 September 2014

Brush Electrical Machines Limited
Profit and Loss Account for the Year Ended 31 December 2013

	Note	2013 £ 000	2012 £ 000
Turnover	2	172,561	203,340
Cost of sales		<u>(133,322)</u>	<u>(158,820)</u>
Gross profit		39,239	44,520
Distribution costs		(6,553)	(6,419)
Administrative expenses		(10,956)	(9,177)
Exceptional operating items	3	<u>(28,300)</u>	<u>-</u>
Operating (loss)/profit	3	(6,570)	28,924
Income from shares in group undertakings	5	22,390	-
Interest receivable and similar income	6	645	887
Interest payable and similar charges	7	<u>(8,871)</u>	<u>(2,183)</u>
Profit on ordinary activities before taxation		7,594	27,628
Tax on profit on ordinary activities	10	<u>5,088</u>	<u>(322)</u>
Profit for the financial year	19	<u><u>12,682</u></u>	<u><u>27,306</u></u>

The above results derive from continuing operations.

The notes on pages 13 to 32 form an integral part of these financial statements.

Brush Electrical Machines Limited
Statement of Total Recognised Gains and Losses for the Year Ended 31 December 2013

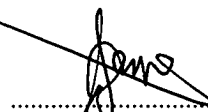
	Note	2013 £ 000	2012 £ 000
Profit for the financial year		12,682	27,306
Actuarial loss on pension schemes	21	(3,045)	-
Deferred tax relating to actuarial loss on pension schemes	21	707	-
Total recognised gains and losses relating to the year		<u>10,344</u>	<u>27,306</u>

The notes on pages 13 to 32 form an integral part of these financial statements.

Brush Electrical Machines Limited
(Registration number: 00111849)
Balance Sheet as at 31 December 2013

	Note	2013 £ 000	2012 £ 000
Fixed assets			
Tangible assets	11	14,296	10,372
Investments	12	442,897	409,975
		<u>457,193</u>	<u>420,347</u>
Current assets			
Stocks	13	14,453	15,638
Debtors	14	43,494	313,576
Cash at bank and in hand		27,202	27,817
		<u>85,149</u>	<u>357,031</u>
Creditors: Amounts falling due within one year	15	(127,952)	(396,851)
Net current liabilities		<u>(42,803)</u>	<u>(39,820)</u>
Total assets less current liabilities		414,390	380,527
Creditors: Amounts falling due after more than one year	16	(304,308)	(304,308)
Provisions for liabilities	17	(1,776)	(1,777)
Net assets excluding pension liability		108,306	74,442
Net pension liability	21	(23,520)	-
Net assets		<u>84,786</u>	<u>74,442</u>
Capital and reserves			
Called up share capital	18	1,000	1,000
Other reserves	19	493	493
Profit and loss account	19	83,293	72,949
Shareholders' funds	20	<u>84,786</u>	<u>74,442</u>

Approved and authorised for issue by the Board on 17 September 2014 and signed on its behalf by:



 G E Barnes
 Director

Brush Electrical Machines Limited
Notes to the Financial Statements for the Year Ended 31 December 2013

1 Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently.

Basis of preparation

The financial statements have been prepared under the historical cost convention, in accordance with applicable United Kingdom law and accounting standards, and on a going concern basis as described in the Strategic Report.

Exemption from preparing a cash flow statement

The company is exempt from preparing a cash flow statement as 90% or more of the voting rights are held within the group.

Exemption from preparing group accounts

The company has taken advantage of the exemption provided by Section 400 of the Companies Act 2006 and has not prepared group accounts.

Going concern

The Directors have considered the going concern assumption given the current uncertain economic climate and the net current liabilities of the Company, and have reviewed the Company forecast and considered the financial commitment from the ultimate parent company, which has been confirmed in writing, 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. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Turnover

Turnover comprises the invoiced value of goods and services supplied by the Company exclusive of value added taxes. Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on despatch of goods.

Revenue from servicing and repair of assets which remain the property of their owners during the work is recognised over the period in which the service is provided.

Revenue recognition

Revenue is recognised to the extent that the company obtains the right to consideration in exchange for its performance. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales tax or duty.

Tangible fixed assets and depreciation

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

Asset class	Depreciation rate
Plant & equipment	10 to 15 years

Brush Electrical Machines Limited
Notes to the Financial Statements for the Year Ended 31 December 2013

1 Accounting policies (continued)

Impairment

Fixed assets (including investments) are reviewed for impairment when changes in circumstances or events indicate that the carrying value of the fixed assets may not be recoverable. An impairment loss is recognised where the recoverable amount is less than the carrying value.

Research and development

Research costs are expensed as incurred.

Costs relating to clearly defined and identifiable development projects are capitalised when there is a technical degree of exploitation, adequacy of resources and a potential market or development possibility in the undertaking that is recognisable; and where it is the intention to produce, market or execute the project; and a correlation also exists between the costs incurred and future benefits and those costs can be measured reliably. Capitalised expenses are expensed on a straight-line basis over their useful lives. Costs not meeting such criteria are expensed as incurred.

Fixed asset investments

The Company's investments in shares in Group companies are stated at cost less provision for impairments in value. Income received from investments is credited to the Profit and Loss account on a receivables basis.

Stock and work in progress

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

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 an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a rate that reflects the current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Brush Electrical Machines Limited
Notes to the Financial Statements for the Year Ended 31 December 2013

1 Accounting policies (continued)

Taxation

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

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

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

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

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

Foreign currency

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the Balance Sheet date are translated to sterling at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the Profit and Loss Account with the exception of differences on foreign currency borrowings, to the extent that they are used to finance or provide a hedge against foreign equity investments, which are taken directly to reserves together with the exchange difference on the carrying amount on the related investments. Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in reserves.

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

Hire purchase and leasing

Rentals paid under operating leases are charged against income on a straight line basis over the lease term.

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

Brush Electrical Machines Limited
Notes to the Financial Statements for the Year Ended 31 December 2013

1 Accounting policies (continued)

Financial instruments

Financial instruments are classified and accounted for, according to the substance of the contractual arrangement, as financial assets, financial liabilities or equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities. Where shares are issued, any component that creates a financial liability of the company is presented as a liability in the balance sheet. The corresponding dividends relating to the liability component are charged as interest expense in the profit and loss account.

Finance costs

Finance costs of financial liabilities are recognised in the Profit and Loss Account over the term of such instruments at a constant rate on the carrying amount.

Pensions

The Company operates a defined contribution pension scheme. Pension costs for the defined contribution pension scheme are recognised within operating profit or loss at an amount equal to the contributions payable to the scheme for the year. Any prepaid or outstanding contributions at the Balance Sheet date are recognised respectively as assets or liabilities within prepayments or accruals.

The company operates a defined benefit pension scheme. Pension liabilities are measured at their present value in accordance with actuarial assumptions that are updated at each Balance Sheet date. Pension assets are measured at fair value. The pension liability or asset is recognised in the Balance Sheet.

Pension costs for the Company's defined benefit pension schemes and other post-retirement benefits are recognised as follows:

Within operating profit:

- the current service cost arising from employee service in the current period;
- the prior service cost related to employee service in prior periods arising in the current period as a result of improvements to benefits; and
- gains and losses arising on unanticipated settlements or curtailments where the item that gave rise to the settlement or curtailment is recognised within operating profit.

Within other finance cost or income:

- the interest cost on the liabilities, calculated by reference to the scheme liabilities and discount rate at the beginning of the period; and
- the expected return on assets, calculated by reference to the assets and their long-term expected rate of return at the beginning of the period.

Within the statement of recognised income and expense:

- on the scheme assets - the difference between the expected and actual return on assets; and
- on the scheme liabilities - (a) the differences between the actuarial assumptions and actual experience, and (b) the effect of changes in actuarial assumptions.

Brush Electrical Machines Limited
Notes to the Financial Statements for the Year Ended 31 December 2013

2 Turnover

An analysis of turnover by geographical location by destination is given below:

	UK	Europe	North America	Rest of World	Total
2013	£ 000	£ 000	£ 000	£ 000	£ 000
External turnover	<u>17,139</u>	<u>43,741</u>	<u>95,367</u>	<u>16,314</u>	<u>172,561</u>

	UK	Europe	North America	Rest of World	Total
2012	£ 000	£ 000	£ 000	£ 000	£ 000
External turnover	<u>14,000</u>	<u>55,227</u>	<u>113,128</u>	<u>20,985</u>	<u>203,340</u>

An analysis of turnover by class of business is given below:

	Aftermarket	Oil & Gas	Industrial	Energy	Utilities	Total
2013	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000
External turnover	<u>31,073</u>	<u>23,862</u>	<u>23,736</u>	<u>15,899</u>	<u>77,991</u>	<u>172,561</u>

	Aftermarket	Oil & Gas	Industrial	Energy	Utilities	Total
2012	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000
External turnover	<u>27,835</u>	<u>23,759</u>	<u>24,861</u>	<u>18,286</u>	<u>108,599</u>	<u>203,340</u>

Brush Electrical Machines Limited
Notes to the Financial Statements for the Year Ended 31 December 2013

3 Operating (loss)/profit

Operating (loss)/profit is stated after charging/(crediting):

	2013	2012
	£ 000	£ 000
Operating leases - plant and machinery	94	81
Foreign currency losses/(gains)	1,008	(470)
Depreciation of owned assets	1,332	1,194
Research and development spend	<u>45</u>	<u>34</u>

Also included within operating (loss)/profit were the following exceptional items:

	2013	2012
	£ 000	£ 000
Assumption of pension liabilities	<u>28,300</u>	<u>-</u>
	<u>28,300</u>	<u>-</u>

On 10 July 2013, a reorganisation of the FKI UK Pension Plan took place which resulted in the separation of the FKI UK Pension Plan into three separate plans. One of these plans, the Brush Group (2013) Pension Scheme, contains the assets and liabilities in respect of employees and former employees of the Brush business. From 10 July 2013, the assets and liabilities of the Brush Group (2013) Pension Scheme have therefore been recognised within the Company's balance sheet and this resulted in an exceptional expense during the year of £28,300,000 which is equivalent to the net liabilities assumed at 10 July 2013. Further details are provided in note 22.

4 Auditor's remuneration

	2013	2012
	£ 000	£ 000
Audit of the financial statements	<u>68</u>	<u>67</u>

5 Investment Income

	2013	2012
	£ 000	£ 000
Dividends received from subsidiary undertakings	<u>22,390</u>	<u>-</u>
	<u>22,390</u>	<u>-</u>

Brush Electrical Machines Limited
Notes to the Financial Statements for the Year Ended 31 December 2013

6 Interest receivable and similar income

	2013 £ 000	2012 £ 000
Interest on loans to group undertakings	605	859
Bank interest	40	28
	<u>645</u>	<u>887</u>

7 Interest payable and similar charges

	2013 £ 000	2012 £ 000
Interest on bank borrowings	60	73
Interest on loans from group undertakings	6,804	588
Preference share dividends	1,522	1,522
Pension scheme other finance costs	485	-
	<u>8,871</u>	<u>2,183</u>

8 Particulars of employees

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

	2013 No.	2012 No.
Production	647	615
Administration and support	115	116
Distribution	66	54
	<u>828</u>	<u>785</u>

The aggregate payroll costs were as follows:

	2013 £ 000	2012 £ 000
Wages and salaries	28,125	26,718
Social security costs	2,854	2,745
Pension costs	1,929	1,302
	<u>32,908</u>	<u>30,765</u>

Brush Electrical Machines Limited
Notes to the Financial Statements for the Year Ended 31 December 2013

9 Directors' remuneration

The Directors received no remuneration for their services to the Company during the year (year ended 31 December 2012: £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.

10 Taxation

Tax on profit on ordinary activities

	2013	2012
	£ 000	£ 000
Withholding taxes	42	30
Total current tax	42	30
Deferred tax		
Origination and reversal of timing differences	(5,130)	292
Total tax on profit on ordinary activities	(5,088)	322

Factors affecting current tax charge for the year

The tax on profit on ordinary activities for the year is lower than the standard rate of corporation tax in the UK (2012: lower than the standard rate of corporation tax in the UK) of 23.25% (2012: 24.5%).

The differences are reconciled below:

	2013	2012
	£ 000	£ 000
Profit on ordinary activities before tax	7,594	27,628
Corporation tax at standard rate	1,766	6,769
Capital allowances in excess of depreciation	(156)	(55)
Other timing differences	6,057	(113)
Non-taxable income	(5,206)	-
Expenses not deductible for tax purposes	447	381
Withholding taxes	42	30
Group relief at nil consideration	(2,908)	(6,982)
Total current tax	42	30

Brush Electrical Machines Limited
Notes to the Financial Statements for the Year Ended 31 December 2013

10 Taxation (continued)

Factors that may affect future tax charges

The 2012 budget (delivered on 21 March 2012) reduced the main rate of UK corporation tax from 26% to 24%, with effect from 1 April 2012. A further reduction in the corporation tax rate to 23%, effective from 1 April 2013, was substantively enacted on 3 July 2012. Further future reductions in the main tax rate to 21% from 1 April 2014 and to 20% from 1 April 2015 have also been substantively enacted at the balance sheet date.

11 Tangible fixed assets

	Plant and equipment £ 000	Total £ 000
Cost		
At 1 January 2013	45,349	45,349
Additions	5,266	5,266
Disposals	(96)	(96)
At 31 December 2013	<u>50,519</u>	<u>50,519</u>
Depreciation		
At 1 January 2013	34,977	34,977
Charge for the year	1,332	1,332
Eliminated on disposals	(86)	(86)
At 31 December 2013	<u>36,223</u>	<u>36,223</u>
Net book value		
At 31 December 2013	<u>14,296</u>	<u>14,296</u>
At 31 December 2012	<u>10,372</u>	<u>10,372</u>

Brush Electrical Machines Limited
Notes to the Financial Statements for the Year Ended 31 December 2013

12 Investments

	2013	2012
	£ 000	£ 000
Shares in group undertakings and participating interests	<u>442,897</u>	<u>409,975</u>

Shares in group undertakings and participating interests

	Subsidiary undertakings	Total
	£ 000	£ 000
Cost		
At 1 January 2013	409,975	409,975
Additions	<u>32,922</u>	<u>32,922</u>
At 31 December 2013	<u>442,897</u>	<u>442,897</u>
Net book value		
At 31 December 2013	<u>442,897</u>	<u>442,897</u>
At 31 December 2012	<u>409,975</u>	<u>409,975</u>

During the year, as a result of a Group reorganisation, the Company acquired the subsidiaries of Hawker Siddeley Switchgear Limited and Harrington Generators International Limited from a fellow Group undertaking for total consideration of £32,922,000.

Brush Electrical Machines Limited
Notes to the Financial Statements for the Year Ended 31 December 2013

12 Investments (continued)

Details of undertakings

Details of the investments in which the company holds 20% or more of the nominal value of any class of share capital are as follows:

Undertaking	Country of incorporation	Holding	Proportion held	Principal activity
Subsidiary undertakings				
Brush Scheme Trustees Limited	Great Britain	Ordinary	100%	Pension Trustee
Brush SEM sro	Czech Republic	Ordinary	100%	Manufacturing
Brush HMA BV	Netherlands	Ordinary	100%	Manufacturing
Brush Japan KK	Japan	Ordinary	100%	Manufacturing
Harrington Generators International Limited	Great Britain	Ordinary	100%	Manufacturing
Brush Transformers Limited	Great Britain	Ordinary	100%	Manufacturing
Brush Aftermarket North America Inc.	USA	Ordinary	100%	Holding
Brush Canada Services Inc	Canada	Ordinary	100%	Services
Hawker Siddeley Switchgear Limited	Great Britain	Ordinary	100%	Manufacturing
Generator and Motor Services of Pennsylvania LLC Inc	USA	Ordinary	100%	Services *
Brush Electrical Machines (Changshu) Co Ltd	China	Ordinary	100%	Manufacturing *
Brush Turbogenerators Inc	USA	Ordinary	100%	Manufacturing *
Brush Switchgear Limited	Great Britain	Ordinary	100%	Dormant *
Bristol Meci Australasia Pty Limited	Australia	Ordinary	100%	Holding *
Hawker Siddeley Switchgear Pty Limited	Australia	Ordinary	100%	Manufacturing *
Mediterranean Power Electric Company Ltd	Malta	Ordinary	26%	Manufacturing *

* Indirectly owned

Brush Electrical Machines Limited
Notes to the Financial Statements for the Year Ended 31 December 2013

13 Stocks

	2013	2012
	£ 000	£ 000
Raw materials	3,197	3,704
Work in progress	10,382	10,080
Finished goods	874	1,854
	<u>14,453</u>	<u>15,638</u>

There is no material difference between the Balance Sheet value of stocks and their replacement cost.

14 Debtors

	2013	2012
	£ 000	£ 000
Trade debtors	25,700	24,246
Amounts owed by group undertakings	15,607	286,889
Other debtors	843	1,634
Prepayments and accrued income	1,344	807
	<u>43,494</u>	<u>313,576</u>

15 Creditors: Amounts falling due within one year

	2013	2012
	£ 000	£ 000
Trade creditors	13,335	14,145
Payments received on account	6,783	5,469
Amounts owed to group undertakings	103,180	372,611
Other taxes and social security	848	865
Other creditors	248	319
Accruals and deferred income	3,558	3,442
	<u>127,952</u>	<u>396,851</u>

16 Creditors: Amounts falling due after more than one year

	2013	2012
	£ 000	£ 000
Preference shares	<u>304,308</u>	<u>304,308</u>

Brush Electrical Machines Limited
Notes to the Financial Statements for the Year Ended 31 December 2013

17 Provisions

	Deferred tax £ 000	Warranty £ 000	Restructuring £ 000	Total £ 000
At 1 January 2013	769	246	762	1,777
Utilised during the period	-	-	(504)	(504)
Charged to the profit and loss account	<u>43</u>	<u>460</u>	<u>-</u>	<u>503</u>
At 31 December 2013	<u><u>812</u></u>	<u><u>706</u></u>	<u><u>258</u></u>	<u><u>1,776</u></u>

Analysis of deferred tax

	2013 £ 000	2012 £ 000
Difference between accumulated depreciation and amortisation and capital allowances	911	949
Other timing differences	<u>(99)</u>	<u>(180)</u>
	<u><u>812</u></u>	<u><u>769</u></u>

Brush Electrical Machines Limited
Notes to the Financial Statements for the Year Ended 31 December 2013

18 Share capital

Allotted, called up and fully paid shares

	No.	2013 £ 000	No.	2012 £ 000
Ordinary Shares of £1 each	1,000,000	1,000	1,000,000	1,000

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 17). These preference shares are presented as a liability in these financial statement in accordance with FRS 25.

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.

19 Reserves

	Other reserves £ 000	Profit and loss account £ 000	Total £ 000
At 1 January 2013	493	72,949	73,442
Profit for the year	-	12,682	12,682
Actuarial loss on pension schemes	-	(3,045)	(3,045)
Deferred tax relating to actuarial gain/(loss) on pension schemes	-	707	707
At 31 December 2013	493	83,293	83,786

Brush Electrical Machines Limited
Notes to the Financial Statements for the Year Ended 31 December 2013

20 Reconciliation of movement in shareholders' funds

	2013 £ 000	2012 £ 000
Profit attributable to the members of the company	12,682	27,306
Other recognised gains and losses relating to the year	<u>(2,338)</u>	<u>-</u>
Net addition to shareholders funds	10,344	27,306
Shareholders' funds at 1 January	<u>74,442</u>	<u>47,136</u>
Shareholders' funds at 31 December	<u><u>84,786</u></u>	<u><u>74,442</u></u>

Brush Electrical Machines Limited
Notes to the Financial Statements for the Year Ended 31 December 2013

21 Pension schemes

Defined contribution pension scheme

The company operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the company to the scheme and amounted to £1,444,000 (2012: £1,302,000).

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 Scheme

At 1 January 2013, the Company participated in the FKI UK Pension Plan which was a multi-employer pension plan. It was not possible to identify the Company's share of assets and liabilities in the scheme and, in accordance with FRS 17 paragraph 9 (b) (multi-employer exemption), the scheme was accounted for as if it were a defined contribution plan.

On 10 July 2013, a reorganisation of the FKI UK Pension Plan took place which resulted in the separation of the FKI UK Pension Plan into three separate plans. One of these plans, the Brush Group (2013) Pension Scheme, contains the assets and liabilities in respect of employees and former employees of the Brush business. From 10 July 2013, the assets and liabilities of the Brush Group (2013) Pension Scheme have therefore been recognised within the Company's balance sheet and this resulted in an exceptional expense during the year of £28,300,000. From 10 July 2013, the pension plan has been accounted for as a defined benefit plan in accordance with FRS 17.

The Brush Group (2013) Pension Scheme is closed to future service accrual. Annual contributions have been agreed amounting to £4,850,000 per year up until 1 October 2017.

Contributions payable to the pension scheme at the end of the year are £Nil (2012: £Nil).

Reconciliation of scheme assets and liabilities to assets and liabilities

The assets and liabilities in the scheme are as follows:

	2013	2012
	£ 000	£ 000
Fair value of scheme assets	167,000	-
Present value of scheme liabilities	<u>(196,400)</u>	<u>-</u>
Defined benefit pension scheme deficit	(29,400)	-
Related deferred tax asset	<u>5,880</u>	<u>-</u>
Net pension liability	<u><u>(23,520)</u></u>	<u><u>-</u></u>

Brush Electrical Machines Limited
Notes to the Financial Statements for the Year Ended 31 December 2013

21 Pension schemes (continued)

Scheme assets

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

	2013 £ 000	2012 £ 000
Assets assumed on transfer of Plan	163,800	-
Expected return on assets	3,115	-
Actuarial gains and losses	(845)	-
Employer contributions	2,430	-
Benefits paid	(1,500)	-
Fair value at end of year	<u>167,000</u>	<u>-</u>

Analysis of assets

The major categories of scheme assets are as follows:

	2013 £ 000	2012 £ 000
Equity instruments	58,600	-
Debt instruments	107,200	-
Cash	1,200	-
	<u>167,000</u>	<u>-</u>

Actual return on scheme's assets

	2013 £ 000	2012 £ 000
Actual return on scheme assets	<u>2,300</u>	<u>-</u>

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.

The overall expected return on assets assumption is derived as the weighted average of the expected returns from each of the main asset classes.

Scheme liabilities

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

	2013 £ 000	2012 £ 000
Liabilities assumed on transfer of Plan	192,100	-
Actuarial gains and losses	2,200	-
Interest cost	3,600	-
Benefits paid	(1,500)	-
Present value at end of year	<u>196,400</u>	<u>-</u>

Brush Electrical Machines Limited
Notes to the Financial Statements for the Year Ended 31 December 2013

21 Pension schemes (continued)

Principal actuarial assumptions

The principal actuarial assumptions at the balance sheet date are as follows:

	2013 %	2012 %
Discount rate	4.40	-
Future pension increases	3.20	-
Inflation	3.40	-
Expected return on scheme assets - equity	7.80	-
Expected return on scheme assets - debt instruments	4.00	-
Expected return on scheme assets - cash	<u>3.60</u>	<u>-</u>

Post retirement mortality assumptions

	2013 Years	2012 Years
Current pensioners at retirement age - male	21.90	-
Current pensioners at retirement age - female	24.10	-
Future pensioners at retirement age - male	23.30	-
Future pensioners at retirement age - female	<u>25.60</u>	<u>-</u>

Mortality assumptions as at 31 December 2013 are based on the Self Administered Pension Scheme ("SAPS") "SI" 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 profit and loss account

	2013 £ 000	2012 £ 000
Amounts recognised in operating profit		
Recognised in arriving at operating profit	<u>-</u>	<u>-</u>
Amounts recognised in other finance costs		
Interest cost	3,600	-
Expected return on scheme assets	<u>(3,115)</u>	<u>-</u>
Recognised in other finance cost	<u>485</u>	<u>-</u>
Total recognised in the profit and loss account	<u>485</u>	<u>-</u>

Brush Electrical Machines Limited
Notes to the Financial Statements for the Year Ended 31 December 2013

21 Pension schemes (continued)

Amounts recognised in the statement of total recognised gains and losses

	2013 £ 000	2012 £ 000
Actuarial losses on scheme assets	(845)	-
Actuarial losses on scheme liabilities	(2,200)	-
Actuarial gains and losses recognised in the Statement of Total Recognised Gains and Losses	<u>(3,045)</u>	<u>-</u>

History of experience adjustments on scheme assets and liabilities

Amounts for the current period are as follows:

	2013 £ 000
Fair value of scheme assets	167,000
Present value of scheme liabilities	<u>(196,400)</u>
Deficit in scheme	<u>(29,400)</u>

Experience adjustments:

	2013 £ 000
Experience adjustments arising on scheme assets	(845)
Experience adjustments arising on scheme liabilities	<u>(2,200)</u>

Comparative figures have not been restated as permitted by FRS 17.

22 Derivative financial instruments

Not held at fair value

	Notional amount 2013 £ 000	Notional amount 2012 £ 000	Fair value 2013 £ 000	Fair value 2012 £ 000
Forward foreign exchange contracts	-	-	837	967

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

Brush Electrical Machines Limited
Notes to the Financial Statements for the Year Ended 31 December 2013

23 Commitments

Capital commitments

Amounts contracted for but not provided in the financial statements amounted to £1,766,000 (2012: £2,397,000).

24 Obligations under leases

Operating lease commitments

As at 31 December 2013 the company had annual commitments under non-cancellable operating leases as follows:

Operating leases which expire:

	2013 £ 000	2012 £ 000
Other		
Within one year	24	14
Within two to five years	43	35
	<u>67</u>	<u>49</u>

25 Related party transactions

The company has taken advantage of the exemption in FRS8 "Related Party Disclosures" from disclosing transactions with other members of the group.

26 Control

The immediate parent company is FKI Limited, which is incorporated in England and Wales.

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

The smallest and largest group in which results of the Company are consolidated is that headed by Melrose Industries PLC. Consolidated financial statements are available from the 11th Floor, Colmore Plaza, 20 Colmore Circus Queensway, Birmingham, West Midlands, B4 6AT.