

Registration number: 00111849

**Brush Electrical Machines Limited**  
**Annual Report and Financial Statements**  
**for the Year Ended 31 December 2020**

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# **Brush Electrical Machines Limited**

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# **Brush Electrical Machines Limited**

## **Company Information**

### **Directors**

C D Abbott

N R L Pitrat

C B Lordereau

B P T Hewitson

### **Company secretary**

B P T Hewitson

### **Registered office**

Power House

Excelsior Road

Ashby-de-la-Zouch

LE65 1BU

### **Auditor**

Deloitte LLP

Statutory Auditor

London

United Kingdom

## **Brush Electrical Machines Limited**

### **Strategic Report for the Year Ended 31 December 2020**

The Directors present their Strategic Report for the year ended 31 December 2020.

#### **Principal activity**

The principal activity of Brush Electrical Machines Limited (hereafter referred to as "The Company") is that of an engineering company specialising in the manufacture and sale of electrical machines and the provision of after sales service.

#### **Fair review of the business**

Revenue for the year ended 31 December 2020 was £29,925,000 (year ended 31 December 2019: £25,385,000). The operating loss for the year ended 31 December 2020 was £2,819,000 (year ended 31 December 2019: profit of £11,697,000). The retained profit for the year ended 31 December 2020 was £21,623,000 (year ended 31 December 2019: £16,714,000).

The Company considers its key performance indicators to be Revenue and Operating Profits.

Revenue increased during the year by 18% (year ended 31 December 2019: 28% decrease). This is mainly due to additional orders for generators placed with the Company and subsequently subcontracted to the 100% owned subsidiary Brush SEM s.r.o. in the Czech Republic.

Operating profit, excluding the impact of operating exceptional expenses and foreign exchange gains and losses, increased during the year by 238% (year ended 31 December 2019: 148% increase). This increase in operating profit is mainly due to the increased revenue and continued strong performance in the parts business which mitigated the effect of the reduction in the Company's field service activities as a result of the Coronavirus (COVID-19) pandemic.

A restructuring net release of £470,000 has been recognised during the year (provision release recognised in the year ended 31 December 2019: £166,000). This is due to the completion of a final contractual settlement, and the expiry of warranties related to the Generator manufacturing that ceased at the Loughborough site in 2018. A review of the carrying value of the Company's investments during the year identified £nil required impairments (year ended 31 December 2019: £6,184,000), and a review of the Company's loan receivables identified an additional impairment of £4,547,000 (year ended 31 December 2019: £20,059,000 net impairment reversal).

During the year, the COVID-19 pandemic created uncertainty in the markets worldwide and stopped production and activities in many areas during the lockdown. Despite this, the Company has been able to continue operating throughout the year: some areas of the business have seen reduced activity, but others have remained strong.

The Company initially made use of the UK Government furlough scheme for a small proportion of its employees but concluded that this was not necessary and subsequently repaid the full amount received.

Since the year end, the Company has continued to operate throughout the nationwide lockdown. Order intake has remained stable, and as lockdown measures are eased, 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 Economic and Political; Loss of Key Management; Legal, Regulatory and Environmental; Information Security and Cyber Threat.

## **Brush Electrical Machines Limited**

### **Strategic Report for the Year Ended 31 December 2020**

#### **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.

#### ***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 Company seeks advance payments where possible, performs credit checks and reviews previous history with customers to ensure credit risk is reduced.

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 Company has been impacted in the year by the global implications of the COVID-19 pandemic. However, although the Company's field service activities were adversely affected by the global uncertainties and restrictions arising from the pandemic, the Company remained resilient and performed well. Due to the global nature of the business, visibility over trading conditions in some markets remains difficult with the continuing uncertainties caused by the pandemic, however the impact on the next 12 months' forecast results is expected to be significantly less than in 2020.

The Directors have reviewed the Company's balance sheet cash position, financing (including the terms of intercompany borrowing and the lack of covenant conditions thereon) and cash flow forecasts and projections, including the current order book, which show that the Company expects to be able to continue to meet its liabilities as they fall due for the next 12 months from the date of the approval of these financial statements. The Directors therefore have a reasonable expectation that the Company has adequate resources to continue in operational existence thus they continue to adopt the going concern basis in preparing the financial statements.

Approved by the Board on 26th July 2021 and signed on its behalf by:



N R L Pitrat  
Director

## **Brush Electrical Machines Limited**

### **Directors' Report for the Year Ended 31 December 2020**

The Directors present their report and the audited financial statements for the year ended 31 December 2020. 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 and up to the date of signing the financial statements were as follows:

G E Barnes (Resigned 18 June 2021)

C D Abbott

J C F Crawford (Resigned 18 June 2021)

G D Morgan (Resigned 18 June 2021)

M J Richards (Resigned 18 June 2021)

N R L Pitrat (Appointed 18 June 2021)

C B Lordereau (Appointed 18 June 2021)

B P T Hewitson (Appointed 18 June 2021)

No Director had a beneficial interest in the share capital of the Company or any of its subsidiaries, except for the fact that some of the Directors, held shares and/or options over shares in Melrose Industries PLC, the ultimate parent company and controlling party as at 31 December 2020, 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 2020 (year ended 31 December 2019: £nil).

The Directors paid a dividend in the year of £32,500,000 (year ended 31 December 2019: £57,150,000).

#### **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 £455,000 during the year (year ended 31 December 2019: £464,000).

**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.

**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 26 July 2021 and signed on its behalf by:

A handwritten signature in black ink, appearing to read 'N R L Pitrat', written over a horizontal line.

N R L Pitrat  
Director

## **Brush Electrical Machines Limited**

### **Directors' Responsibilities Statement**

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), including FRS 101 "Reduced Disclosure Framework". 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**

#### **Opinion on the financial statements**

In our opinion the financial statements of Brush Electrical Machines Limited (the 'Company'):

- give a true and fair view of the state of the Company's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity;
- the related notes (1 to 30).

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including the Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Conclusions relating to going concern**

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

**Other information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

**Responsibilities of Directors**

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

**Extent to which the audit was considered capable of detecting irregularities, including fraud**

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the company's industry and its control environment and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory framework that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included the UK Companies Act, pensions legislation and tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty. These included the company's environmental regulations in the jurisdictions the company operates in.

We discussed among the audit engagement team regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud or non-compliance with laws and regulations in the following areas, and our specific procedures performed to address it are described below:

- Classification of adjusting items
  - obtained an understanding of the relevant controls over the classification of adjusting items in the non-statutory financial statements;
  - evaluated the appropriateness of the inclusion of items, both individually and in aggregate, within adjusted results; and
  - tested a sample of adjusting items by agreeing to source documentation and evaluating their nature in order to assess whether they are disclosed in accordance with the company's accounting policy, and also to assess consistency of adjusting items between periods in the non-financial financial statements.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance.

## **Report on other legal and regulatory requirements**

### **Opinions on other matters prescribed by the Companies Act 2006**

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

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

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

### **Matters on which we are required to report by exception**

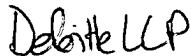
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

We have nothing to report in respect of these matters.

### **Use of our report**

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



.....  
Lucy Openshaw (Senior Statutory Auditor)  
For and on behalf of Deloitte LLP, Statutory Auditor

London  
United Kingdom

26 July 2021

## Brush Electrical Machines Limited

### Income Statement for the Year Ended 31 December 2020

| Continuing Operations                                     | Note | 2020<br>£ 000   | 2019<br>£ 000   |
|---|------|-----------------|-----------------|
| Revenue   | 4    | 29,925          | 25,385          |
| Cost of sales   |      | <u>(23,057)</u> | <u>(20,125)</u> |
| Gross profit  |      | 6,868           | 5,260           |
| Distribution costs  |      | (3,559)         | (3,039)         |
| Administrative expenses                                   | 6    | (6,440)         | 9,225           |
| Other operating income                                    | 5    | <u>312</u>      | <u>251</u>      |
| Operating (loss)/profit                                   | 7    | (2,819)         | 11,697          |
| Income from shares in group undertakings                  |      | 25,020          | 6,300           |
| Finance income  | 9    | 382             | 1,634           |
| Finance costs   | 10   | <u>(410)</u>    | <u>(2,150)</u>  |
| Profit before tax   |      | 22,173          | 17,481          |
| Tax on profit   | 13   | <u>(550)</u>    | <u>(767)</u>    |
| Profit for the year attributable to owners of the Company |      | <u>21,623</u>   | <u>16,714</u>   |

| Adjusted <sup>(1)</sup> results from continuing operations         | Note | 2020<br>£ 000 | 2019<br>£ 000 |
|--|------|---------------|---------------|
| Adjusted operating profit/(loss)                                   | 6,7  | 1,338         | (2,344)       |
| Adjusted profit before tax   |      | 26,330        | 3,440         |
| Adjusted profit for the year attributable to owners of the Company |      | 25,780        | 2,673         |

<sup>(1)</sup> Defined in the summary of significant accounting policies (Note 2)

# Brush Electrical Machines Limited

## Statement of Comprehensive Income for the Year Ended 31 December 2020

|   | 2020<br>£ 000 | 2019<br>£ 000 |
|---|---------------|---------------|
| Profit for the year   | 21,623        | 16,714        |
| <b>Items that will not be reclassified subsequently to profit or loss</b>                       |               |               |
| Remeasurements of post-employment benefit obligations   | 14,172        | 4,315         |
| Income tax relating to items that will not be reclassified subsequently to the income statement | (2,695)       | (732)         |
|   | 11,477        | 3,583         |
| <b>Items that may be reclassified subsequently to profit or loss</b>                            |               |               |
| Gain / (loss) on cash flow hedges (net)   | 99            | (8)           |
| Income tax relating to items that may be reclassified subsequently to the income statement      | (17)          | -             |
|   | 82            | (8)           |
| Total comprehensive income for the year   | 33,182        | 20,289        |

## Brush Electrical Machines Limited

### Balance Sheet as at 31 December 2020

|   | Note | 2020<br>£ 000   | 2019<br>£ 000   |
|---|------|-----------------|-----------------|
| <b>Non-current assets</b>                           |      |                 |                 |
| Intangible assets                                   | 14   | 15              | 36              |
| Property, plant and equipment                       | 15   | 4,184           | 339             |
| Investments   | 16   | 107,874         | 107,874         |
| Retirement benefit assets                           | 24   | 30,272          | 16,559          |
| Trade and other receivables                         | 18   | 673             | 3,482           |
|   |      | <u>143,018</u>  | <u>128,290</u>  |
| <b>Current assets</b>                               |      |                 |                 |
| Inventories   | 17   | 2,312           | 1,076           |
| Trade and other receivables                         | 18   | 23,784          | 13,571          |
| Derivative financial instruments                    | 29   | 326             | 54              |
| Cash at bank and in hand                            |      | 381             | 11,675          |
|   |      | <u>26,803</u>   | <u>26,376</u>   |
| <b>Total assets</b>                                 |      | <u>169,821</u>  | <u>154,666</u>  |
| <b>Current liabilities</b>                          |      |                 |                 |
| Trade and other payables                            | 19   | (12,831)        | (8,949)         |
| Lease liabilities                                   | 20   | (257)           | (0)             |
| Loans and borrowings                                | 21   | (4,606)         | (152)           |
| Derivative financial instruments                    | 29   | (6)             | (39)            |
| Provisions  | 22   | (935)           | (2,136)         |
| <b>Current liabilities</b>                          |      | <u>(18,635)</u> | <u>(11,276)</u> |
| <b>Net current assets</b>                           |      | <u>8,168</u>    | <u>15,100</u>   |
| <b>Total assets less current liabilities</b>        |      | <u>151,186</u>  | <u>143,390</u>  |
| <b>Non-current liabilities</b>                      |      |                 |                 |
| Trade and other payables                            | 19   | (37,660)        | (36,458)        |
| Lease Liabilities                                   | 20   | (2,317)         | -               |
| Deferred tax liabilities                            | 23   | (4,976)         | (1,782)         |
| Provisions  | 22   | (401)           | -               |
| <b>Non-current liabilities</b>                      |      | <u>(45,354)</u> | <u>(38,240)</u> |
| <b>Net assets</b>                                   |      | <u>105,832</u>  | <u>105,150</u>  |
| <b>Equity</b>                                       |      |                 |                 |
| Share capital                                       | 25   | 1,000           | 1,000           |
| Hedging reserve                                     | 26   | 80              | (2)             |
| Other reserves                                      |      | 493             | 493             |
| Retained earnings                                   | 26   | 104,259         | 103,659         |
| <b>Equity attributable to owners of the Company</b> |      | <u>105,832</u>  | <u>105,150</u>  |

**Brush Electrical Machines Limited**  
**Balance Sheet as at 31 December 2020**

Approved by the Board on 26 July 2021 and signed on its behalf by:

A handwritten signature in black ink, appearing to read 'N R L Pitrat', is written over a horizontal line.

N R L Pitrat  
Director



**Brush Electrical Machines Limited**

**Statement of Changes in Equity for the Year Ended 31 December 2020**

|                                   | Share capital<br>£ 000 | Hedging reserve<br>£ 000 | Other reserves<br>£ 000 | Retained earnings<br>£ 000 | Total<br>£ 000 |
|-----------------------------------|------------------------|--------------------------|-------------------------|----------------------------|----------------|
| At 1 January 2019                 | 1,000                  | 6                        | 493                     | (163,796)                  | (162,297)      |
| Profit for the year               | -                      | -                        | -                       | 16,714                     | 16,714         |
| Other comprehensive income        | -                      | (8)                      | -                       | 3,583                      | 3,575          |
| Total comprehensive income        | -                      | (8)                      | -                       | 20,297                     | 20,289         |
| Dividends                         | -                      | -                        | -                       | (57,150)                   | (57,150)       |
| Cancellation of Preference Shares | -                      | -                        | -                       | 304,308                    | 304,308        |
| At 31 December 2019               | 1,000                  | (2)                      | 493                     | 103,659                    | 105,150        |
| At 1 January 2020                 | 1,000                  | (2)                      | 493                     | 103,659                    | 105,150        |
| Profit for the year               | -                      | -                        | -                       | 21,586                     | 21,586         |
| Other comprehensive income        | -                      | 82                       | -                       | 11,477                     | 11,559         |
| Total comprehensive income        | -                      | 82                       | -                       | 33,100                     | 33,182         |
| Dividends                         | -                      | -                        | -                       | (32,500)                   | (32,500)       |
| At 31 December 2020               | 1,000                  | 80                       | 493                     | 104,259                    | 105,832        |

## **Brush Electrical Machines Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2020**

#### **1 General information**

The Company is a private company limited by share capital incorporated in the United Kingdom under the Companies Act and is registered in England and Wales. 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:

Power House

Excelsior Road

Ashby-de-la-Zouch

LE65 1BU

These financial statements were authorised for issue by the Board on 26 July 2021.

#### **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 'Application of Financial Reporting Requirements' issued by the FRC. Accordingly, these financial statements were prepared in accordance with FRS 101 'Reduced Disclosure Framework'.

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.

##### **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 cash flow statement, standards not yet effective, impairment of assets and related party transactions. Where required, equivalent disclosures are given in the group accounts 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.

## **Brush Electrical Machines Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2020**

#### **2 Accounting policies (continued)**

##### **Going concern**

The Company has been impacted in the year by the global implications of the COVID-19 pandemic. However, although the Company's field service activities were adversely affected by the global uncertainties and restrictions arising from the pandemic, the Company remained resilient and performed well. Due to the global nature of the business, visibility over trading conditions in some markets remains difficult with the continuing uncertainties caused by the pandemic, however the impact on the next 12 months' forecast results is expected to be significantly less than in 2020.

The Directors have reviewed the Company's balance sheet cash position, financing (including the terms of intercompany borrowing and the lack of covenant conditions thereon) and cash flow forecasts and projections, including the current order book, which show that the Company expects to be able to continue to meet its liabilities as they fall due for the next 12 months from the date of the approval of these financial statements. The Directors therefore have a reasonable expectation that the Company has adequate resources to continue in operational existence thus they continue to adopt the going concern basis in preparing the 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.

## **Brush Electrical Machines Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2020**

#### **2 Accounting policies (continued)**

##### **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 nature of agreements into which the Company enters means that:

Certain of the Company's arrangements with its customers are multiple element arrangements that can include any combination of products and services such as extended warranties, installation and start up testing as deliverables. With the exception of certain extended warranty arrangements, substantially all of the deliverables within the Company's multiple-element arrangements are delivered within a one-year period. Revenue for any undelivered elements is deferred until delivery occurs. The Company allocates revenue to multiple-element arrangements based on the relative fair value of each element's estimated selling price.

The service element of the contract is usually insignificant in relation to the total contract value and is often provided on a short-term or one-off basis. Where this is the case, revenue is recognised when the service is complete.

Aftermarket activities generally relate to the provision of spare parts, repairs and the rebuild of equipment. Revenue on the provision of parts is recognised in accordance with the policy on the sale of goods and revenue for repairs and rebuild is recognised upon completion of the activity.

The majority of the Company's revenue is earned from the sale of goods.

The specific methods used to recognise the different forms of revenue earned by the Company are as follows:

##### **Sale of goods**

Revenue is recognised when all of the following conditions are satisfied:

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

Transfers of risks and rewards vary depending on the nature of the products sold and the individual terms of the contract of sale. Sales made under internationally accepted trade terms are recognised as revenue when the Company has completed the primary duties required to transfer risks as stipulated in those terms. Sales made outside of such terms are generally recognised on delivery to the customer.

No revenue is recognised where recovery of the consideration is not probable or there are significant uncertainties regarding associated costs or the possible return of goods.

##### **Provision of services**

As noted above, because revenue from the rendering of services is usually not significant in relation to the total contract value and is generally provided on a short-term or one-off basis, revenue is usually recognised when the service is complete.

## **Brush Electrical Machines Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2020**

#### **2 Accounting policies (continued)**

##### **Adjusting items**

Adjusting 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.

##### **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.

The Company's liability for current tax is calculated 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 2020**

#### **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.

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.

#### **Depreciation**

Depreciation is recognised on all tangible property, plant and equipment, 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. The estimated useful lives, residual values and depreciation method are reviewed at the end of every reporting period. Depreciation is provided as follows:

| <b>Asset class</b>  | <b>Depreciation rate</b> |
|---------------------|--------------------------|
| Plant and equipment | 3 to 15 years            |

#### **Right-of-use-Asset**

Right-of-use assets arise under IFRS 16 and are depreciated over the shorter of the estimated useful life and the lease term.

## **Brush Electrical Machines Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2020**

#### **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 income statement 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:

| <b>Asset class</b> | <b>Amortisation rate</b> |
|--------------------|--------------------------|
| 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 2020**

#### **2 Accounting policies (continued)**

##### **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.

##### **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.

##### **Restructuring**

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.

##### **Environmental and legal**

Liabilities for environmental and legal costs are recognised when environmental assessments or legal claims are probable, and the associated costs can be reasonably estimated. The amount recognised is the best estimate of the expenditure required.



## **Brush Electrical Machines Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2020**

#### **2 Accounting policies (continued)**

##### **Other**

Liabilities associated with the dilapidation of the leased building are recognised when the expenditure is probable, due to contractual terms, and the costs can be reasonably estimated. The amount recognised is the best estimate based upon the value recovered from the previous tenant.

##### **Impairment of non-financial assets**

At each balance sheet date, the Company reviews the carrying amounts of its non-financial 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.

##### **Retirement benefit costs**

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

##### **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.

## **Brush Electrical Machines Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2020**

#### **2 Accounting policies (continued)**

##### **Financial assets and liabilities**

###### ***Classification***

All financial assets are classified as either those which are measured at fair value, through profit or loss, or Other Comprehensive Income, and those measured at amortised cost.

###### ***Financial assets 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 the income statement.

###### ***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.

###### ***Derecognition of financial assets***

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.

###### ***Impairment of financial assets***

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.

## **Brush Electrical Machines Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2020**

#### **2 Accounting policies (continued)**

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.

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 asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

#### **Financial liabilities and equity**

##### ***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.

##### **Derecognition of financial liabilities**

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 2020**

#### **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 foreign exchange rate risk, including foreign exchange forward contracts and swaps.

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.

##### **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 the income statement.

##### **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.

##### **Derecognition of financial assets**

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.

## **Brush Electrical Machines Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2020**

#### **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.

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 asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

##### **Hedge accounting**

The Company designates certain hedging instruments as 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.

## **Brush Electrical Machines Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2020**

#### **2 Accounting policies (continued)**

##### **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 2020**

#### **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.

There are no critical judgements, apart from those involving estimations, to disclose within the scope of paragraph 122 of IAS 1: "Presentation of financial statements".

#### **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. COVID-19 is such an event and has been a focus in the year. 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. For further details on the Company's investments, impairments and associated sensitivities, see Note 16.

#### **Retirement benefit obligations**

The Company's defined benefit obligation is discounted at a rate set by reference to market yields at the end of the reporting period on high quality corporate bonds. Significant judgement is required when setting the criteria for bonds to be included in the population from which the yield curve is derived. The most significant criteria considered for the selection of bonds include the issue size of the corporate bonds, quality of the bonds and the identification of outliers which are excluded. In addition, judgement is made in determining mortality rate assumptions to be used when valuing the Company's defined benefit obligations. At 31 December 2020, the Company's retirement benefit obligation net asset was £30,272,000 (31 December 2019: £16,559,000). Further details of the assumptions applied and a sensitivity analysis on the principal assumptions used to determine the Company's defined benefit obligations is shown in note 24.

## Brush Electrical Machines Limited

### Notes to the Financial Statements for the Year Ended 31 December 2020

#### 4 Revenue

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

|                       | 2020<br>£ 000 | 2019<br>£ 000 |
|-----------------------|---------------|---------------|
| Sale of goods         | 22,679        | 12,587        |
| Rendering of services | 7,246         | 12,798        |
| Revenue               | <u>29,925</u> | <u>25,385</u> |

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

|                   | 2020<br>£ 000 | 2019<br>£ 000 |
|-------------------|---------------|---------------|
| United Kingdom    | 3,813         | 3,605         |
| Europe            | 11,284        | 9,471         |
| North America     | 3,008         | 3,327         |
| Asia              | 8,697         | 7,374         |
| Rest of the world | 3,123         | 1,608         |
|                   | <u>29,925</u> | <u>25,385</u> |

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

|             | 2020<br>£ 000 | 2019<br>£ 000 |
|-------------|---------------|---------------|
| Energy      | 2,459         | 2,748         |
| Oil & gas   | 10,909        | 2,753         |
| Industrials | 344           | -             |
| Aftermarket | 16,213        | 19,259        |
| Mining      | -             | 73            |
| Other       | -             | 552           |
|             | <u>29,925</u> | <u>25,385</u> |

#### 5 Other operating income

The analysis of the company's other operating income for the year is as follows:

|                                      | 2020<br>£ 000 | 2019<br>£ 000 |
|--------------------------------------|---------------|---------------|
| Other operating income               | 312           | 251           |
| Government Grant Income              | 410           | -             |
| Repayment of Government Grant Income | (410)         | -             |
|                                      | <u>312</u>    | <u>251</u>    |

Other operating income in 2020 relates to sales of scrap and receipts in lieu of previous tenant refurbishment for the new building lease agreement (2019: sales of scrap).

The Government Grant Income refers to income the Company received from the UK Government furlough scheme for a small proportion of its employees. The Repayment of Government Grant Income refers to the Company's decision to repay all income received from the UK Government furlough scheme.



## Brush Electrical Machines Limited

### Notes to the Financial Statements for the Year Ended 31 December 2020

#### 6 Adjusting items

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

|   | 2020<br>£ 000  | 2019<br>£ 000 |
|---|----------------|---------------|
| Impairment of investment in subsidiaries              | -              | (6,184)       |
| Restructuring items                                   | 470            | 166           |
| Impact of GMP equalisation on UK pension scheme       | (80)           | -             |
| Impairment/reversal of impairment of loan receivables | (4,547)        | 20,059        |
|   | <u>(4,157)</u> | <u>14,041</u> |

During the year, a review of the carrying value of the Company's investments in subsidiaries identified impairments of £nil. A similar review in 2019 identified impairments of £6,184,000.

A restructuring net release of £470,000 was recognised during the year, relating primarily to a final contractual settlement and the expiry of warranties on contracts performed by the Generator manufacturing business that ceased to operate at the UK site in 2018. Restructuring provision releases of £166,000 were recognised in 2019 also as a result of the expiry of warranties on contracts performed by the Generator manufacturing business.

During the year the Company incurred a further £80,000 in respect of gender equalisation of guaranteed minimum pensions (GMP) for occupational pension schemes in the UK. This charge resulted from amendments made in 2020 to a High Court judgment from October 2018.

During the year, a review of the carrying value of the Company's loan receivable balances identified impairments with a total value of £4,547,000. A similar review in 2019 identified impairments of £7,203,000. In addition to the above, a reversal of previous years' impairments of the Company's loan with Brush China with a total value of £27,262,000 was recognised, as this loan has now been transferred at face value to the parent company.

## Brush Electrical Machines Limited

### Notes to the Financial Statements for the Year Ended 31 December 2020

#### 7 Operating (profit)/loss

Arrived at after charging/(crediting)

|   | 2020<br>£ 000 | 2019<br>£ 000 |
|---|---------------|---------------|
| Depreciation expense                      | 423           | 40            |
| Amortisation expense                      | 21            | 21            |
| Research and development spend            | 455           | 464           |
| Foreign exchange (gains)/losses           | (717)         | 1,894         |
| Staff costs                               | 13,547        | 13,937        |
| Lease rentals                             | 13            | 23            |
| Cost of inventories recognised as expense | 23,057        | 20,125        |
| Write-downs of inventory                  | 137           | -             |
| Reversals of write-downs of inventory     | (1,299)       | (7)           |
|   | <hr/>         | <hr/>         |

#### 8 Auditor's remuneration

|                                   | 2020<br>£ 000 | 2019<br>£ 000 |
|-----------------------------------|---------------|---------------|
| Audit of the financial statements | 70            | 64            |
|                                   | <hr/>         | <hr/>         |

#### 9 Finance income

|   | 2020<br>£ 000 | 2019<br>£ 000 |
|---|---------------|---------------|
| Interest income on bank deposits        | 5             | -             |
| Interest on loans to Group undertakings | 377           | 1,634         |
|   | <hr/>         | <hr/>         |
|   | 382           | 1,634         |
|   | <hr/>         | <hr/>         |

#### 10 Finance costs

|  | 2020<br>£ 000 | 2019<br>£ 000 |
|--|---------------|---------------|
| Interest on bank overdrafts and borrowings | -             | (22)          |
| Interest paid to group undertakings        | 693           | 319           |
| Net interest (benefit)/cost on pensions    | (330)         | (361)         |
| Interest on finance leases                 | 47            | -             |
| Preference share dividends                 | -             | 2,214         |
|  | <hr/>         | <hr/>         |
|  | 410           | 2,150         |
|  | <hr/>         | <hr/>         |

The preference shares were cancelled in December 2019 (see Note 25 Share Capital).

## Brush Electrical Machines Limited

### Notes to the Financial Statements for the Year Ended 31 December 2020

#### 11 Staff costs

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

|  | 2020<br>£ 000 | 2019<br>£ 000 |
|--|---------------|---------------|
| Wages and salaries                         | 11,793        | 12,185        |
| Social security costs                      | 1,126         | 1,103         |
| Pension costs, defined contribution scheme | 628           | 649           |
|  | <u>13,547</u> | <u>13,937</u> |

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

|                                   | 2020<br>No. | 2019<br>No. |
|-----------------------------------|-------------|-------------|
| Production                        | 144         | 147         |
| Sales, marketing and distribution | 16          | 14          |
| Administration and support        | 33          | 26          |
|                                   | <u>193</u>  | <u>187</u>  |

#### 12 Directors' remuneration

The directors' remuneration for the year was as follows:

|              | 2020<br>£ 000 | 2019<br>£ 000 |
|--------------|---------------|---------------|
| Remuneration | <u>611</u>    | <u>661</u>    |

The directors' remuneration of £611,000 for the year comprises £313,000 salary and £298,000 bonus payment.

In respect of the highest paid director:

|              | 2020<br>£ 000 | 2019<br>£ 000 |
|--------------|---------------|---------------|
| Remuneration | <u>611</u>    | <u>628</u>    |

The highest paid director's remuneration of £611,000 for the year comprises £313,000 salary and £298,000 bonus payment.

## Brush Electrical Machines Limited

### Notes to the Financial Statements for the Year Ended 31 December 2020

#### 13 Income tax

Tax charged/(credited) in the income statement

|  | 2020<br>£ 000 | 2019<br>£ 000 |
|--|---------------|---------------|
| Withholding taxes  | 68            | 167           |
| Total current income tax                                       | 68            | 167           |
| <b>Deferred taxation</b>                                       |               |               |
| Arising from origination and reversal of temporary differences | 482           | 600           |
| Tax charge in the income statement                             | 550           | 767           |

The tax on profit before tax for the year is lower than the standard rate of corporation tax in the UK of 19% (2019: lower than the standard rate of corporation tax in the UK of 19%).

The differences are reconciled below:

|  | 2020<br>£ 000 | 2019<br>£ 000 |
|--|---------------|---------------|
| Profit before tax                                      | 22,173        | 17,481        |
| Corporation tax at standard rate                       | 4,213         | 3,321         |
| Adjustment for prior periods                           | 87            | 172           |
| Non-taxable income                                     | (4,754)       | (6,377)       |
| Expenses not deductible in determining taxable profit  | 928           | 3,008         |
| Group relief at nil consideration                      | (202)         | 526           |
| Withholding taxes                                      | 68            | 167           |
| Effect of rate differences on deferred tax recognition | 210           | (50)          |
| Total tax charge                                       | 550           | 767           |

## Brush Electrical Machines Limited

### Notes to the Financial Statements for the Year Ended 31 December 2020

#### 13 Income tax (continued)

##### 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 and equity:

| Deferred tax                                      | 2020<br>£ 000 | 2019<br>£ 000 |
|---|---------------|---------------|
| Financial instruments treated as cash flow hedges | 17            | -             |
| Retirement benefit obligations                    | 2,695         | 732           |
|   | <u>2,712</u>  | <u>732</u>    |

The enacted rate of UK corporation tax for the year ended 31 December 2020 was 19% due to the reversal in the Finance Act 2020 of the previously enacted rate reduction to 17%. Therefore, a rate change effect arises in this period where deferred tax that was previously recognised at 17% is now recognised at 19%.

The Finance Act 2021, includes a further increase in the UK corporation tax rate to 25% with effect from 1 April 2023. This further change had not been substantively enacted at the balance sheet date, so deferred tax balances as at 31 December 2020 have been recognised at the enacted rate of 19%. If the new rate of 25% had been applied to the closing balance sheet there would have been an increase in the deferred tax liability of £1,571,000.

#### 14 Intangible assets

|                          | Computer<br>software<br>£ 000 | Total<br>£ 000 |
|--------------------------|-------------------------------|----------------|
| <b>Cost or valuation</b> |                               |                |
| At 1 January 2020        | 2,486                         | 2,486          |
| Disposals                | <u>(1,510)</u>                | <u>(1,510)</u> |
| At 31 December 2020      | <u>976</u>                    | <u>976</u>     |
| <b>Amortisation</b>      |                               |                |
| At 1 January 2020        | 2,450                         | 2,450          |
| Charge for the year      | 21                            | 21             |
| Eliminated on disposal   | <u>(1,510)</u>                | <u>(1,510)</u> |
| At 31 December 2020      | <u>961</u>                    | <u>961</u>     |
| <b>Carrying amount</b>   |                               |                |
| At 31 December 2020      | <u>15</u>                     | <u>15</u>      |
| At 31 December 2019      | <u>36</u>                     | <u>36</u>      |

## Brush Electrical Machines Limited

### Notes to the Financial Statements for the Year Ended 31 December 2020

#### 15 Property, plant and equipment

|                                 | Land and<br>Buildings<br>(Right-of-Use)<br>£ 000 | Plant and<br>equipment<br>£ 000 | Total<br>£ 000 |
|---------------------------------|--|---------------------------------|----------------|
| <b>Cost or valuation</b>        |  |                                 |                |
| At 1 January 2020               | -  | 22,147                          | 22,147         |
| Additions                       | 2,553  | 1,715                           | 4,268          |
| Disposals                       | -  | (17,526)                        | (17,526)       |
| At 31 December 2020             | 2,553  | 6,336                           | 8,889          |
| <b>Accumulated depreciation</b> |  |                                 |                |
| At 1 January 2020               | -  | 21,808                          | 21,808         |
| Charge for the year             | 254  | 169                             | 423            |
| Eliminated on disposal          | -  | (17,526)                        | (17,526)       |
| At 31 December 2020             | 254  | 4,451                           | 4,705          |
| <b>Carrying amount</b>          |  |                                 |                |
| At 31 December 2020             | 2,299  | 1,885                           | 4,184          |
| At 31 December 2019             | -  | 339                             | 339            |

|                                   | Land and<br>Buildings<br>£ 000 | Total<br>£ 000 |
|-----------------------------------|--------------------------------|----------------|
| <b><u>Right-of-use assets</u></b> |                                |                |
| At 1 January 2020                 | -                              | -              |
| Additions                         | 2,553                          | 2,553          |
| Depreciation                      | (254)                          | (254)          |
| At 31 December 2020               | 2,299                          | 2,299          |

The land & buildings addition in the year is a new 10-year building lease in Ashby-de-la-Zouch, Leicestershire. This new right-to-use asset is recognised in line with IFRS 16.

The plant & equipment additions mainly relate to the refurbishment of the new building.

The plant & equipment disposals in the year mainly relate to assets associated with the ceased generator manufacturing activities as part of the final stages of reorganisation of the Loughborough site.

## Brush Electrical Machines Limited

### Notes to the Financial Statements for the Year Ended 31 December 2020

#### 16 Investments

| Subsidiaries                    | £ 000          |
|---------------------------------|----------------|
| <b>Cost or valuation</b>        |                |
| At 1 January 2020               | 470,638        |
| At 31 December 2020             | <u>470,638</u> |
| <b>Provision for impairment</b> |                |
| At 1 January 2020               | 362,764        |
| At 31 December 2020             | <u>362,764</u> |
| <b>Carrying amount</b>          |                |
| At 31 December 2020             | <u>107,874</u> |
| At 31 December 2019             | <u>107,874</u> |

A detailed impairment review was performed by management to assess the recoverability of the Company's investments at the year end, with no impairments recognised in 2020. In 2019, an impairment was recognised for Harrington Generators International Ltd of £6,184,000, which has subsequently ceased its Generator manufacturing activities.

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.

As a result of the work performed, management considered the carrying value of the Company's investments to be recoverable.

#### Sensitivity Analysis

A 1% increase in the cost of capital used to value future cash flows from investments would not lead to an impairment. Similarly, a 5% reduction in revenues from investments would not lead to an impairment.

## Brush Electrical Machines Limited

### Notes to the Financial Statements for the Year Ended 31 December 2020

#### 16 Investments (continued)

Details of the subsidiaries and associates as at 31 December 2020 and 31 December 2019 are as follows:

| Name of subsidiary                                   | Principal activity  | Country of incorporation and principal place of business                                     | Proportion of ownership interest and voting rights held |      |
|--|---------------------|--|---|------|
|  |                     |  | 2020  | 2019 |
| Brush Scheme Trustees Limited*                       | Dormant             | Power House, Excelsior Road<br>Ashby-de-la-Zouch, England<br>LE65 1BU, United Kingdom        | 100%  | 100% |
| Brush SEM s.r.o.*                                    | Engineering company | Edvarda Benese 564/39,<br>Doudlevice, 301 00 Plzen, Czech<br>Republic                        | 100%  | 100% |
| Brush HMA B.V.*                                      | Engineering company | Schaardijk 372, 5th Floor,<br>Building 2, 2909 La Capelle aan<br>den IJssel, The Netherlands | 100%  | 100% |
| Harrington Generators International Limited*         | Engineering company | Power House, Excelsior Road<br>Ashby-de-la-Zouch, England<br>LE65 1BU, United Kingdom        | 100%  | 100% |
| Brush Transformers Limited*                          | Engineering company | Power House, Excelsior Road<br>Ashby-de-la-Zouch, England<br>LE65 1BU, United Kingdom        | 100%  | 100% |
| Brush Aftermarket North America Inc*                 | Holding company     | 601 Braddock Avenue, Turtle<br>Creek, Pittsburgh, Pennsylvania,<br>15145, USA                | 100%  | 100% |
| Brush Canada Services Inc/Services Brush Canada Inc* | Engineering company | 1134 Grande Allée Ouest,<br>bureau 600, Quebec, G1S 1E5,<br>Canada                           | 100%  | 100% |
| Hawker Siddeley Switchgear Limited*                  | Engineering company | Power House, Excelsior Road<br>Ashby-de-la-Zouch, England<br>LE65 1BU, United Kingdom        | 100%  | 100% |
| Brush Electrical Engineering Company Limited*        | Dormant             | Power House, Excelsior Road<br>Ashby-de-la-Zouch, England<br>LE65 1BU, United Kingdom        | 100%  | 100% |



## Brush Electrical Machines Limited

### Notes to the Financial Statements for the Year Ended 31 December 2020

#### 16 Investments (continued)

|  |                     |  |      |      |
|--|---------------------|--|------|------|
| Brush Properties Limited*                        | Holding Company     | Power House, Excelsior Road<br>Ashby-de-la-Zouch, England<br>LE65 1BU, United Kingdom  | 100% | 100% |
| Danks Holdings Ltd*                              | Dormant             | Power House, Excelsior Road<br>Ashby-de-la-Zouch, England<br>LE65 1BU, United Kingdom  | 100% | 100% |
| Brush Middle East LLC*                           | Dormant             | As Sinaiyah, Nizwa, Ad<br>Dakhliyah Region, Oman   | 70%  | 70%  |
| Generator and Motor Services of Pennsylvania LLC | Engineering company | 601 Braddock Avenue, Turtle<br>Creek, Pittsburgh, Pennsylvania,<br>15145, USA  | 100% | 100% |
| Brush Electrical Machines (Changshu) Co Limited  | Engineering company | 8 Changhong Road, Changshu<br>Economic Development Zone,<br>Jiangsu Province, 215500, China  | 0%   | 100% |
| Brush Switchgear Limited                         | Dormant             | Power House, Excelsior Road<br>Ashby-de-la-Zouch, England<br>LE65 1BU, United Kingdom  | 100% | 100% |
| Bristol Meci Australasia Pty Limited             | Holding company     | Unit 6, 256-258 Leitchs Road,<br>Brendale, QLD 4500, Australia   | 100% | 100% |
| Hawker Siddeley Switchgear Pty Limited           | Engineering company | Unit 6, 256-258 Leitchs Road,<br>Brendale, QLD 4500, Australia   | 100% | 100% |
| Mediterranean Power Electric Company Limited     | Engineering company | Marsa Industrial Estate, Marsa,<br>MRS 3000, Malta   | 26%  | 26%  |
| Electro Dynamic Limited (liquidated)             | Dormant             | 79 Caroline Street, Birmingham,<br>United Kingdom  | 0%   | 100% |
| Whipp & Bourne Limited                           | Non-trading Company | Power House, Excelsior Road<br>Ashby-de-la-Zouch, England<br>LE65 1BU, United Kingdom  | 100% | 100% |
| FKI Plan Trustees Limited                        | Dormant             | Power House, Excelsior Road<br>Ashby-de-la-Zouch, England<br>LE65 1BU, United Kingdom  | 100% | 100% |
| FKI Engineering Shanghai Limited                 | Non-trading Company | Unit 2025, 2031, 1st Floor,<br>Building C, No.155 Fute, West<br>One Road, Shanghai Waigaoqiao<br>Bonded Area, China (Shanghai)<br>Pilot Free Trade Zone, China | 100% | 100% |

\* owned directly by the Company.

## **Brush Electrical Machines Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2020**

#### **16 Investments (continued)**

All holdings relate to Ordinary Shares, except for the following:

- Harrington Generators International Limited - Ordinary Shares and Non-voting 'A' Ordinary Shares
- Electro Dynamic Limited - Ordinary Shares, Non-cumulative Preference Shares and Deferred Ordinary Shares
- Mediterranean Power Electric Company Limited - 'A' Ordinary Shares

On 20 May 2020, the sale of Brush Electrical Machines (Changshu) Co Limited from Brush SEM s.r.o. to Eachaim Aerospace Holdings Limited completed following approval from the relevant authorities, such transfer having an effective date of 30 December 2019. Eachaim Aerospace Holdings Limited is a subsidiary in the wider Melrose Group.

Post year-end, on 19 January 2021, Brush Middle East LLC was dissolved.

#### **17 Inventories**

|                                     | <b>2020</b>  | <b>2019</b>  |
|-------------------------------------|--------------|--------------|
|                                     | <b>£ 000</b> | <b>£ 000</b> |
| Raw materials and consumables       | 172          | 222          |
| Work in progress                    | 1,768        | 726          |
| Finished goods and goods for resale | 372          | 128          |
|                                     | <u>2,312</u> | <u>1,076</u> |

## Brush Electrical Machines Limited

### Notes to the Financial Statements for the Year Ended 31 December 2020

#### 18 Trade and other receivables

##### Details of current trade and other receivables

|   | 2020<br>£ 000 | 2019<br>£ 000 |
|---|---------------|---------------|
| Trade receivables                             | 7,534         | 4,028         |
| Provision for impairment of trade receivables | (160)         | (74)          |
| Net trade receivables                         | 7,374         | 3,954         |
| Amounts owed by Group undertakings            | 13,479        | 8,361         |
| Prepayments and accrued income                | 479           | 406           |
| Other receivables                             | 2,452         | 850           |
| Total trade and other receivables             | 23,579        | 13,571        |

Amounts owed by Group undertakings are receivable balances with fellow subsidiary undertakings of the Melrose group of companies, which are on standard terms: unsecured, interest bearing only where part of a credit facility and payable as per the terms of the agreements, not on demand.

##### Details of non-current trade and other receivables

|                                    | 2020<br>£ 000 | 2019<br>£ 000 |
|------------------------------------|---------------|---------------|
| Amounts owed by Group undertakings | 673           | 3,482         |
|                                    | 673           | 3,482         |

Amounts owed by Group undertakings are receivable balances with fellow subsidiary undertakings of the Melrose group of companies, which are on standard terms: unsecured, interest bearing only where part of a credit facility and payable as per the terms of the agreements, not on demand.

## Brush Electrical Machines Limited

### Notes to the Financial Statements for the Year Ended 31 December 2020

#### 18 Trade and other receivables - continued

The Company applies the simplified approach to providing for expected credit losses (ECL) prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. As the Company's historical credit loss experience does not show significantly different loss patterns for distinct customer segments, the provision is based on the total receivables balance. The provision as at 31 December 2020 is determined as below:

| <b>As at 31<br/>December 2020</b>                | <b>Not past due<br/>£000</b> | <b>&lt;30<br/>£000</b> | <b>31-60<br/>£000</b> | <b>61-90<br/>£000</b> | <b>91-120<br/>£000</b> |
|--|------------------------------|------------------------|-----------------------|-----------------------|------------------------|
| Expected credit loss rate                        | 0.5%                         | 5%                     | 5%                    | 20%                   | 100%                   |
| Estimated total gross carrying amount at default | 32                           | 37                     | 9                     | 19                    | 63                     |
| Lifetime ECL                                     |                              |                        |                       |                       | 160                    |

Year ended 31 December 2019:

| <b>As at 31<br/>December 2020</b>                | <b>Not past due<br/>£000</b> | <b>&lt;30<br/>£000</b> | <b>31-60<br/>£000</b> | <b>61-90<br/>£000</b> | <b>91-120<br/>£000</b> |
|--|------------------------------|------------------------|-----------------------|-----------------------|------------------------|
| Expected credit loss rate                        | 0.5%                         | 5%                     | 5%                    | 20%                   | 100%                   |
| Estimated total gross carrying amount at default | 16                           | 27                     | 8                     | 9                     | 14                     |
| Lifetime ECL                                     |                              |                        |                       |                       | 74                     |

## Brush Electrical Machines Limited

### Notes to the Financial Statements for the Year Ended 31 December 2020

#### 19 Trade and other payables

|   | 2020<br>£ 000 | 2019<br>£ 000 |
|---|---------------|---------------|
| <b>Trade and other payables - amounts falling due within one year</b> |               |               |
| Trade payables  | 1,589         | 1,030         |
| Accruals and deferred income  | 4,226         | 3,799         |
| Amounts owed to Group undertakings                                    | 5,770         | 3,883         |
| Social security and other taxes                                       | 12            | 29            |
| Payments on account   | 1,212         | 208           |
| Other payables  | 22            | -             |
|   | 12,831        | 8,949         |

Amounts owed to group undertakings are payable balances with fellow subsidiary undertakings of the Melrose group of companies, which are on standard terms: unsecured, interest bearing only where part of a credit facility and payable as per the terms of the agreements, not on demand.

|  | 2020<br>£ 000 | 2019<br>£ 000 |
|--|---------------|---------------|
| <b>Trade and other payables - amounts falling due after more than one year</b> |               |               |
| Amounts owed to Group undertakings   | 37,660        | 36,458        |

Amounts owed to group undertakings are payable balances with fellow subsidiary undertakings of the Melrose group of companies, which are on standard terms: unsecured, interest bearing only where part of a credit facility and payable as per the terms of the agreements, not on demand.

#### 20 Lease Liabilities

|  | 2020<br>£ 000 | 2019<br>£ 000 |
|--|---------------|---------------|
| Lease liabilities falling due within one year          | 257           | 0             |
| Lease liabilities falling due after more than one year | 2,317         | 0             |
|  | 2,574         | 0             |

The lease liabilities are for a new 10-year building lease at a site in Ashby-de-la-Zouch.

The present values of future finance lease payments are analysed as follows:

|  | Minimum lease<br>payments<br>£ 000 | Interest<br>£ 000 | Present value<br>£ 000 |
|--|------------------------------------|-------------------|------------------------|
| Lease liabilities falling due within one year          | 300                                | (43)              | 257                    |
| Lease liabilities falling due after more than one year | 2,492                              | (175)             | 2,317                  |
|  | 2,792                              | (218)             | 2,574                  |

Future finance charges are expected to be £218,000 (2019: £nil).

## **Brush Electrical Machines Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2020**

#### **21 Loans and borrowings**

|   | <b>2020</b>  | <b>2019</b>  |
|---|--------------|--------------|
|   | <b>£ 000</b> | <b>£ 000</b> |
| <b>Loans and borrowings - amounts falling due within one year</b> |              |              |
| Bank overdrafts   | <u>4,606</u> | <u>152</u>   |

The bank overdrafts are unsecured, interest bearing and payable on demand. The overdraft at the end of 2020 was due to the interim dividend payment.

## Brush Electrical Machines Limited

### Notes to the Financial Statements for the Year Ended 31 December 2020

#### 22 Provisions

|                               | Warranties<br>£ 000 | Environmental &<br>Legal<br>£ 000 | Restructuring<br>£ 000 | Other provisions<br>£ 000 |
|-------------------------------|---------------------|-----------------------------------|------------------------|---------------------------|
| At 1 January 2020             | 475                 | 550                               | 1,111                  | -                         |
| Additional provisions charged | 50                  | 194                               | -                      | 401                       |
| Provisions utilised           | (59)                | -                                 | (381)                  | -                         |
| Unused provision reversed     | (275)               | -                                 | (730)                  | -                         |
| At 31 December 2020           | 191                 | 744                               | -                      | 401                       |
| Current                       | 191                 | 744                               | -                      | 0                         |
| Non-current                   | -                   | -                                 | -                      | 401                       |

|                               | Total<br>£ 000 |
|-------------------------------|----------------|
| At 1 January 2020             | 2,136          |
| Additional provisions charged | 645            |
| Provisions utilised           | (440)          |
| Unused provision reversed     | (1,005)        |
| At 31 December 2020           | 1,336          |
| Current                       | 935            |
| Non-current                   | 401            |

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

The opening provisions for Environmental & Legal relate to an unresolved litigation matter and the outstanding elements of a one-off customer repair work that are legal in nature and are expected to be utilised within one year of the balance sheet date. The provision recognised in the year is legal in nature and is expected to be utilised within one year of the balance sheet date.

The provision for restructuring related to reorganisation plans to transfer the Generator Manufacturing operations to Brush SEM s.r.o. and 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. This has now been completed.

The other provision recognised in the year is a dilapidation provision for the new building lease in Ashby-de-la-Zouch, which is not expected to be utilised until 2029 or beyond.

## Brush Electrical Machines Limited

### Notes to the Financial Statements for the Year Ended 31 December 2020

#### 23 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<br>£ 000 | Liabilities<br>£ 000 | Net<br>£ 000 |
|--------------------------------|-----------------|----------------------|--------------|
| <b>2020</b>                    |                 |                      |              |
| Accelerated tax depreciation   | -               | 619                  | 619          |
| Other temporary differences    | -               | 157                  | 157          |
| Retirement benefit obligations | -               | (5,752)              | (5,752)      |
|                                | -               | (4,976)              | (4,976)      |

|                                | Assets<br>£ 000 | Liabilities<br>£ 000 | Net<br>£ 000 |
|--------------------------------|-----------------|----------------------|--------------|
| <b>2019</b>                    |                 |                      |              |
| Accelerated tax depreciation   | -               | 697                  | 697          |
| Other temporary differences    | -               | 336                  | 336          |
| Retirement benefit obligations | -               | (2,815)              | (2,815)      |
|                                | -               | (1,782)              | (1,782)      |

|                      | Accelerated tax<br>depreciation<br>£ 000 | Other temporary<br>differences<br>£ 000 | Retirement<br>benefit obligations<br>£ 000 | Total<br>£ 000 |
|----------------------|--|---|--|----------------|
| At 1 January 2019    | 853                                      | 809                                     | (2,112)                                    | (450)          |
| Recognised in income | (156)                                    | (473)                                   | 29   | (600)          |
| Recognised in equity | -  | -                                       | (732)                                      | (732)          |
| At 31 December 2019  | 697                                      | 336                                     | (2,815)                                    | (1,782)        |

|                      | Accelerated tax<br>depreciation<br>£ 000 | Other temporary<br>differences<br>£ 000 | Retirement<br>benefit obligations<br>£ 000 | Total<br>£ 000 |
|----------------------|--|---|--|----------------|
| At 1 January 2020    | 697                                      | 336                                     | (2,815)                                    | (1,782)        |
| Recognised in income | (78)                                     | (162)                                   | (242)                                      | (482)          |
| Recognised in equity | -  | (17)                                    | (2,695)                                    | (2,712)        |
| At 31 December 2020  | 619                                      | 157                                     | (5,752)                                    | (4,976)        |

Deferred tax is not provided on the unremitted earnings of overseas subsidiaries except where the distribution of such profits is planned. If these earnings were remitted in full, tax of £2,476,000 would be payable (2019: £nil). Following the UK's exit from the EU, this amount has been calculated on the basis that the Company will rely on withholding tax rates as set out in Double Taxation Conventions agreed between the UK and other countries, rather than the EU Parent-Subsidiary Directive.



## Brush Electrical Machines Limited

### Notes to the Financial Statements for the Year Ended 31 December 2020

#### 24 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 £628,000 (2019: £649,000).

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 is 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 as of December 2019. The full actuarial valuation has been updated at 31 December 2020 by independent actuaries.

Contributions payable to the pension scheme at the end of the year are £Nil (2019: £Nil).

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

Reconciliation of scheme assets and liabilities to assets and liabilities recognised.

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

|  | 31 December<br>2020<br>£ 000 | 31 December<br>2019<br>£ 000 |
|--|------------------------------|------------------------------|
| Fair value of scheme assets            | 310,112                      | 277,845                      |
| Present value of scheme liabilities    | (279,840)                    | (261,286)                    |
| Defined benefit pension scheme surplus | 30,272                       | 16,559                       |

## Brush Electrical Machines Limited

### Notes to the Financial Statements for the Year Ended 31 December 2020

#### 24 Pension schemes (continued)

##### Scheme assets

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

|  | 2020<br>£ 000  | 2019<br>£ 000  |
|--|----------------|----------------|
| Fair value at start of year  | 277,845        | 243,713        |
| Interest income  | 5,462          | 6,935          |
| Return on plan assets, excluding amounts included in interest income | 36,358         | 37,164         |
| Benefits paid  | (8,844)        | (9,424)        |
| Administrative expenses paid   | (709)          | (543)          |
| Fair value at end of year  | <u>310,112</u> | <u>277,845</u> |

##### Analysis of assets

The major categories of scheme assets are as follows:

|                  | 31 December<br>2020<br>£ 000 | 31 December<br>2019<br>£ 000 |
|------------------|------------------------------|------------------------------|
| Equities         | 64,307                       | 84,586                       |
| Government bonds | 199,276                      | 146,506                      |
| Other            | 46,529                       | 46,753                       |
|                  | <u>310,112</u>               | <u>277,845</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

|                                | 31 December<br>2020<br>£ 000 | 31 December<br>2019<br>£ 000 |
|--------------------------------|------------------------------|------------------------------|
| Actual return on scheme assets | <u>41,820</u>                | <u>44,099</u>                |

## Brush Electrical Machines Limited

### Notes to the Financial Statements for the Year Ended 31 December 2020

#### 24 Pension schemes (continued)

##### Scheme liabilities

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

|  | 2020<br>£ 000  | 2019<br>£ 000  |
|--|----------------|----------------|
| Present value at start of year   | 261,286        | 231,287        |
| Past service cost  | 80             | -              |
| Actuarial (gains) and losses arising from changes in demographic assumptions | 3,612          | (5,858)        |
| Actuarial (gains) and losses arising from changes in financial assumptions   | 24,600         | 39,466         |
| Actuarial (gains) and losses arising from experience adjustments             | (6,026)        | (759)          |
| Interest cost  | 5,132          | 6,574          |
| Benefits paid  | (8,844)        | (9,424)        |
| Present value at end of year   | <u>279,840</u> | <u>261,286</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:

|                          | 31 December<br>2020<br>% | 31 December<br>2019<br>% |
|--------------------------|--------------------------|--------------------------|
| Discount rate            | 1.40                     | 2.00                     |
| Future pension increases | 3.10                     | 2.80                     |
| Inflation                | <u>2.20</u>              | <u>2.10</u>              |

##### *Post retirement mortality assumptions*

|  | 2020<br>Years | 2019<br>Years |
|--|---------------|---------------|
| Current UK pensioners at retirement age - male   | 21.10         | 20.80         |
| Current UK pensioners at retirement age - female | 23.50         | 22.70         |
| Future UK pensioners at retirement age - male    | 22.40         | 22.10         |
| Future UK pensioners at retirement age - female  | <u>24.90</u>  | <u>24.30</u>  |

The assumptions were that a member currently aged 65 will live on average for a further 21.1 years (31 December 2019: 20.8 years) if they are male and for a further 23.5 years (31 December 2019: 22.7 years) if they are female. For a member who retires in 2040 at age 65, the assumptions were that they will live for a further 22.4 years (31 December 2019: 22.1 years) after retirement if they are male and for a further 24.9 years (31 December 2019: 24.3 years) after retirement if they are female.

## Brush Electrical Machines Limited

### Notes to the Financial Statements for the Year Ended 31 December 2020

#### 24 Pension schemes (continued)

Amounts recognised in the income statement

|  | 31 December<br>2020<br>£ 000 | 31 December<br>2019<br>£ 000 |
|--|------------------------------|------------------------------|
| <b>Amounts recognised in operating profit</b>        |                              |                              |
| Past service cost                                    | 80                           | -                            |
| Administrative expenses paid                         | 709                          | 543                          |
| Recognised in arriving at operating profit           | 789                          | 543                          |
| <b>Amounts recognised in finance income or costs</b> |                              |                              |
| Net interest   | (330)                        | (361)                        |
| Total recognised in the income statement             | 459                          | 182                          |

Amounts taken to the Statement of Comprehensive Income

|  | 2020<br>£ 000 | 2019<br>£ 000 |
|--|---------------|---------------|
| Actuarial gains and losses arising from changes in financial assumptions | (22,186)      | (32,849)      |
| Return on plan assets, excluding amounts included in interest income     | 36,358        | 37,164        |
| Amounts recognised in the Statement of Comprehensive Income              | 14,172        | 4,315         |

#### Sensitivity analysis

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

|  | 31 December<br>2020 |          | 31 December<br>2019 |          |
|--|---------------------|----------|---------------------|----------|
|  | + 0.1%              | - 0.1%   | + 0.1%              | - 0.1%   |
|  | £ 000               | £ 000    | £ 000               | £ 000    |
| <b>Adjustment to discount rate</b>                   |                     |          |                     |          |
| Present value of total obligation                    | (5,200)             | 5,600    | (5,200)             | 5,300    |
|  | 31 December<br>2020 |          | 31 December<br>2019 |          |
|  | + 0.1%              | - 0.1%   | + 0.1%              | - 0.1%   |
|  | £ 000               | £ 000    | £ 000               | £ 000    |
| <b>Adjustment to rate of inflation</b>               |                     |          |                     |          |
| Present value of total obligation                    | 2,100               | (1,500)  | 2,700               | (2,100)  |
|  | 31 December<br>2020 |          | 31 December<br>2019 |          |
|  | + 1 Year            | - 1 Year | + 1 Year            | - 1 Year |
|  | £ 000               | £ 000    | £ 000               | £ 000    |
| <b>Adjustment to mortality age rating assumption</b> |                     |          |                     |          |
| Present value of total obligation                    | 16,500              | (16,200) | 10,500              | (10,300) |

## Brush Electrical Machines Limited

### Notes to the Financial Statements for the Year Ended 31 December 2020

#### 25 Share capital

##### Authorised, issued and fully paid shares

|                            | 2020      |       | 2019      |       |
|----------------------------|-----------|-------|-----------|-------|
|                            | Number    | £ 000 | Number    | £ 000 |
| Ordinary shares of £1 each | 1,000,000 | 1,000 | 1,000,000 | 1,000 |

In addition to ordinary shares, until the end of 2019, the Company had 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 21). These preference shares were presented as a liability in these financial statements. At the end of 2019, both preference shares were cancelled, reducing the total Share Capital from £1,000,002 to £1,000,000, and the £304.3 million liability was transferred to reserves.

#### 26 Reserves

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

|   | Hedging reserve<br>£ 000 | Retained earnings<br>£ 000 | Total<br>£ 000 |
|---|--------------------------|----------------------------|----------------|
| Gain on cash flow hedges                                    | 82                       | -                          | 82             |
| Remeasurements of post-employment benefit obligations (net) | -                        | 11,477                     | 11,477         |
|   | 82                       | 11,477                     | 11,559         |

## Brush Electrical Machines Limited

### Notes to the Financial Statements for the Year Ended 31 December 2020

#### 26 Reserves (continued)

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

|   | Hedging reserve<br>£ 000 | Retained earnings<br>£ 000 | Total<br>£ 000 |
|---|--------------------------|----------------------------|----------------|
| Loss on cash flow hedges                                    | (8)                      | -                          | (8)            |
| Remeasurements of post-employment benefit obligations (net) | -                        | 3,583                      | 3,583          |
|   | (8)                      | 3,583                      | 3,575          |

#### 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.

#### 27 Dividends

##### Dividends paid

Amounts recognised as distributions to equity holders:

|                | 2020<br>£ 000 | 2019<br>£ 000 |
|----------------|---------------|---------------|
| Dividends paid | 32,500        | 57,150        |

Dividends paid per share: £32.50 (2019: £57.15)

#### 28 Commitments

##### Capital commitments

Capital commitments are as follows:

|   | 2020<br>£ 000 | 2019<br>£ 000 |
|---|---------------|---------------|
| Contracted for additions to property, plant & equipment | -             | 45            |
| Contracted for additions to intangible assets           | -             | -             |
|   | -             | 45            |

## Brush Electrical Machines Limited

### Notes to the Financial Statements for the Year Ended 31 December 2020

#### 29 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:

| 2020<br>Derivative financial instruments | Assets<br>£ 000 | Liabilities<br>£ 000 | Net<br>£ 000 |
|--|-----------------|----------------------|--------------|
| Foreign currency forward contracts       | 326             | (6)                  | 320          |

The maturity of derivative financial instruments is as follows:

| 2020<br>Derivative financial instruments | Assets<br>£ 000 | Liabilities<br>£ 000 | Net<br>£ 000 |
|--|-----------------|----------------------|--------------|
| Within one year                          | 326             | (6)                  | 320          |

| 2019<br>Derivative financial instruments | Assets<br>£ 000 | Liabilities<br>£ 000 | Net<br>£ 000 |
|--|-----------------|----------------------|--------------|
| Foreign currency forward contracts       | 54              | (39)                 | 15           |

The maturity of derivative financial instruments is as follows:

| 2019<br>Derivative financial instruments | Assets<br>£ 000 | Liabilities<br>£ 000 | Net<br>£ 000 |
|--|-----------------|----------------------|--------------|
| Within one year                          | 54              | (39)                 | 15           |

##### 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

## **Brush Electrical Machines Limited**

### **Notes to the Financial Statements for the Year Ended 31 December 2020**

#### **29 Financial instruments (continued)**

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.

##### **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.

#### **30 Controlling party**

As at 31 December 2020, the Company's immediate parent company was Brush Holdings Limited, a company incorporated in England & Wales and the ultimate parent company and controlling party was 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.

Copies of the Group financial statements of Melrose Industries PLC are available from its registered address: 11th Floor, The Colmore Building, 20 Colmore Circus Queensway, Birmingham, West Midlands, B4 6AT.

On the 18th of June 2021, Brush Electrical Machines Limited was acquired by One Equity Partners. From this date, the ultimate parent and controlling party was Brush Jersey Holdco II Limited, a company incorporated in Jersey. As part of this transaction, Brush Aftermarket North America Inc (and its immediate subsidiary Generator and Motor Services of Pennsylvania LLC), was sold to Brush US HoldCo, whose ultimate controlling party was also Brush Jersey Holdco II Limited.