Registration number: 00370559

Hawker Siddeley Switchgear Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2016

Hawker Siddeley Switchgear Limited

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Hawker Siddeley Switchgear Limited

Company Information

Directors	G E Barnes S A Peckham A G Peart M J Richards G D Morgan G P Martin
Company secretary	B Hewitson
Registered office	11th Floor The Colmore Building 20 Colmore Circus Queensway Birmingham West Midlands B4 6AT
Auditors	Deloitte LLP Chartered Accountants 5 Callaghan Square Cardiff United Kingdom CF10 5BT

Hawker Siddeley Switchgear Limited

Strategic Report for the Year Ended 31 December 2016

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

Principal activity
The Company's principal activity is that of the assembly of indoor and outdoor switchgear and circuit breakers and power infrastructure equipment. The Directors do not expect any change in this activity in the foreseeable future.

Fair review of the business
Turnover for the year ended 31 December 2016 was £41,508,000 (year ended 31 December 2015: £43,056,000). The operating profit for the year ended 31 December 2016 was £4,999,000 (year ended 31 December 2015: profit of £7,077,000). The retained profit for the year ended 31 December 2016 was £5,626,000 (year ended 31 December 2015: profit of £7,325,000).

The Business had a challenging year during 2016, order intake from both the DNO and Sub Contractor markets reduced due to delays in replacement and capital projects, as a result of changes in the regulatory cycle and uncertainty around Brexit. The subsequent reduction in volumes manufactured impacted operational efficiencies, which has been addressed going into 2017 through the introduction of flexible working, alongside the established programmes of Continuous Improvement and Defect Prevention.

New Product Development has been reviewed and refined throughout 2016, to ensure the delivery of key projects in line with market requirements, in order to maintain current business and underpin the 5 year Growth Strategy.

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

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

Financial risk management

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

Principal risks

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

The Company's credit risk is primarily attributable to its trade receivables and receivables from other Group undertakings. The amounts presented in the Balance Sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. The Company has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

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

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

Going concern

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

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

Approved by the Board on 6 September 2017 and signed on its behalf by:

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G E Barnes
Director

Hawker Siddeley Switchgear Limited

Directors Report for the Year Ended 31 December 2016

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

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

G E Barnes

S A Peckham

A G Peart

M J Richards

G D Morgan

G P Martin

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

Dividends

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

The Directors paid a dividend in the year of £50,000,000 (year ended 31 December 2015: £9,800,000).

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 continued to invest resources to the development of new products to enhance the organic growth of the business. The Company incurred research and development costs of £1,783,000 during the year (year ended 31 December 2015: £1,778,000).

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.

Hawker Siddeley Switchgear Limited

Directors Report for the Year Ended 31 December 2016

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

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

Approved by the Board on 6 September 2017 and signed on its behalf by:

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G E Barnes
Director

Hawker Siddeley Switchgear Limited

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework' ('FRS 101'). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditor's Report to the members of Hawker Siddeley Switchgear Limited

We have audited the financial statements of Hawker Siddeley Switchgear Limited for the year ended 31 December 2016, set out on pages 9 to 39. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework'.

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

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

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

Opinion on the financial statements
In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

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

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

Independent Auditor's Report to the members of Hawker Siddeley Switchgear Limited

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Andrew Woodhead

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Andrew Woodhead FCA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP, Statutory Auditor

5 Callaghan Square
Cardiff
United Kingdom
CF10 5BT

6 September 2017

Hawker Siddeley Switchgear Limited

Profit and Loss Account for the Year Ended 31 December 2016

	Note	2016 £ 000	2015 £ 000
Turnover	4	41,508	43,056
Cost of sales		(29,616)	(29,997)
Gross profit		11,892	13,059
Distribution costs		(1,539)	(1,904)
Administrative expenses		(5,354)	(4,925)
Exceptional operating items	5	-	847
Operating profit	6	4,999	7,077
Income from participating interests		858	342
Interest receivable and similar income	8	48	139
Interest payable and similar charges	9	(3)	(2)
Profit before tax		5,902	7,556
Tax on profit on ordinary activities	12	(276)	(231)
Profit for the year		5,626	7,325

The above results were derived from continuing operations.

Hawker Siddeley Switchgear Limited

Statement of Comprehensive Income for the Year Ended 31 December 2016

	2016 £ 000	2015 £ 000
Profit for the year	5,626	7,325
Items that may be reclassified subsequently to profit or loss		
(Loss)/gain on cash flow hedges (net)	(45)	20
Income tax effect	9	(4)
	(36)	16
Total comprehensive income for the year	5,590	7,341

Hawker Siddeley Switchgear Limited

(Registration number: 00370559)
Balance Sheet as at 31 December 2016

	Note	2016 £ 000	2015 £ 000
Fixed assets			
Property, plant and equipment	14	2,704	2,968
Deferred tax assets	21	26	-
		2,730	2,968
Current assets			
Inventories	16	3,143	3,129
Trade and other receivables	17	12,356	61,569
Derivative financial instruments	29	19	31
Cash at bank and in hand		7,552	1,922
		23,070	66,651
Creditors: Amounts falling due within one year			
Trade and other payables	18	(10,170)	(9,654)
Loans and borrowings	19	(51)	-
Derivative financial instruments	29	(45)	-
Provisions	20	(1,259)	(1,196)
Creditors: Amounts falling due within one year		(11,525)	(10,850)
Net current assets		11,545	55,801
Total assets less current liabilities		14,275	58,769
Deferred tax liabilities	21	-	(7)
Provisions	20	(838)	(915)
Net assets		13,437	57,847
Capital and reserves			
Called up share capital	23	1,550	1,550
Hedging reserve		(20)	16
Profit and loss account		11,907	56,281
Shareholders' funds		13,437	57,847

Hawker Siddeley Switchgear Limited

(Registration number: 00370559)
Balance Sheet as at 31 December 2016

Approved by the Board on 6 September 2017 and signed on its behalf by:

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G E Barnes
Director

Hawker Siddeley Switchgear Limited

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

	Share capital £ 000	Hedging reserve £ 000	Profit and loss account £ 000	Total £ 000
At 1 January 2015	1,550	-	58,756	60,306
Profit for the year	-	-	7,325	7,325
Other comprehensive income	-	16	-	16
Total comprehensive income	-	16	7,325	7,341
Dividends paid	-	-	(9,800)	(9,800)
At 31 December 2015	1,550	16	56,281	57,847

	Share capital £ 000	Hedging reserve £ 000	Profit and loss account £ 000	Total £ 000
At 1 January 2016	1,550	16	56,281	57,847
Profit for the year	-	-	5,626	5,626
Other comprehensive income	-	(36)	-	(36)
Total comprehensive income	-	(36)	5,626	5,590
Dividends paid	-	-	(50,000)	(50,000)
At 31 December 2016	1,550	(20)	11,907	13,437

1 General information

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

The address of its registered office is:
11th Floor
The Colmore Building
20 Colmore Circus Queensway
Birmingham
West Midlands
B4 6AT

These financial statements were authorised for issue by the Board on 6 September 2017.

2 Accounting policies

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

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

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

2 Accounting policies (continued)

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

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:
- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Summary of disclosure exemptions
As permitted by FRS 101 and where relevant, the Company has taken advantage of the disclosure exemptions available under that standard in relation to financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a 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.

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

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

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

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

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

2 Accounting policies (continued)

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

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

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

Government grants
Government grants relating to tangible fixed assets are treated as deferred income and released to the Profit and Loss Account over the expected useful lives of the assets concerned. Other grants are credited to the Profit and Loss Account as the related expenditure is incurred.

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.

2 Accounting policies (continued)

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account 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.

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

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

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

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

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

Property, plant and equipment

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

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

Depreciation

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

Asset class	Depreciation rate
Buildings	10 to 50 years
Plant and equipment	3 to 15 years

2 Accounting policies (continued)

Intangible assets
Internally-generated intangible assets - research and development expenditure
Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the development is recognised if, and only if, all of the following conditions have been demonstrated:
the technical feasibility of completing the intangible assets so that it will be available for use or sale;
the intention to complete the intangible asset and use or sell it;
the ability to use or sell the intangible asset;
how the intangible asset will generate probable future economic benefits;
the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible assets; and
the ability to measure reliably the expenditure attributable to the intangible asset during its development.

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

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).

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

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

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

2 Accounting policies (continued)

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 and costs to be incurred in marketing, selling and distribution. If inventory is impaired, the carrying amount is reduced to its selling price less costs to complete and sell; the impairment loss is recognised immediately in profit or loss. Provision is made for obsolete, slow-moving or defective items where appropriate.

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

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

Borrowings
All borrowings are initially recorded at the amount of proceeds received, net of transaction costs. Borrowings are subsequently carried at amortised cost, with the difference between the proceeds, net of transaction costs, and the amount due on redemption being recognised as a charge to the profit and loss account over the period of the relevant borrowing.

Interest expense is recognised on the basis of the effective interest method and is included in finance costs.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

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.

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.

2 Accounting policies (continued)

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

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

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

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

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

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

Dividends
Dividend distribution to the company's shareholders is recognised as a liability in the company's financial statements in the period in which the dividends are approved by the company's shareholders.

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

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

2 Accounting policies (continued)

Financial assets and liabilities

Classification

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

Recognition and measurement

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

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

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

Effective interest method

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

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

Loans and receivables

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

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 re-organisation.

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

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

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

2 Accounting policies (continued)

Financial liabilities
Classification

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

Recognition and measurement

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

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

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

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

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

2 Accounting policies (continued)

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

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

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

2 Accounting policies (continued)

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

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

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

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

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

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the profit and loss account 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.

3 Critical accounting judgements and key sources of estimation uncertainty

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

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

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

Impairment of non-current assets

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

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

Provisions

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

Taxation

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

4 Revenue

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

	2016 £ 000	2015 £ 000
Sale of goods	4,966	4,127
Rendering of services	36,542	38,929
Revenue	41,508	43,056
Interest receivable and similar income	48	139
Income from participating interests	858	342
	906	481
Total revenue as defined by IAS 18	42,414	43,537

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

	2016 £ 000	2015 £ 000
United Kingdom	29,146	29,714
Europe	334	844
North America	2,231	3,336
Asia	6,920	6,129
Rest of the world	2,877	3,033
	41,508	43,056

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

	2016 £ 000	2015 £ 000
Utilities	26,916	27,238
Aftermarket	7,579	6,083
Rail	7,013	9,735
	41,508	43,056

5 Exceptional operating items

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

	2016 £ 000	2015 £ 000
Cash received from related party	-	847

In 2015, cash was received from a related party in Hong Kong, FKI Switchgear (Hong Kong) Company Ltd.

6 Operating profit

Arrived at after charging/(crediting)

	2016 £ 000	2015 £ 000
Depreciation expense	515	519
Research and development spend	1,783	1,778
Foreign exchange losses/(gains)	128	(128)
Staff costs	9,477	9,724
Operating lease rentals	681	418
Cost of inventories recognised as expense	29,616	29,997
Write downs of inventory	25	30
Reversals of write downs of inventory	(49)	-
Government grants	(22)	(39)

7 Auditors' remuneration

	2016 £ 000	2015 £ 000
Audit of the financial statements	28	26

8 Interest receivable and similar income

	2016 £ 000	2015 £ 000
Interest income on bank deposits	4	15
Interest on loans to Group undertakings	44	124
	48	139

9 Interest payable and similar charges

	2016 £ 000	2015 £ 000
Interest on bank overdrafts and borrowings	3	2

10 Staff costs

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

	2016 £ 000	2015 £ 000
Wages and salaries	8,192	8,447
Social security costs	868	857
Pension costs, defined contribution scheme	417	420
	9,477	9,724

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

	2016 No.	2015 No.
Production	171	183
Sales, marketing and distribution	17	19
Administration and support	67	72
	255	274

11 Directors' remuneration

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

12 Income tax

Tax charged/(credited) in the profit and loss account

	2016 £ 000	2015 £ 000
Witholding taxes	300	80
Total current income tax	300	80
Deferred taxation		
Arising from origination and reversal of temporary differences	(24)	151
Tax charge in the profit and loss account	276	231

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

The differences are reconciled below:

	2016 £ 000	2015 £ 000
Profit before tax	5,902	7,556
Corporation tax at standard rate	1,180	1,530
Adjustment for prior periods	(13)	35
Non-taxable income	(172)	(69)
Expenses not deductible in determining taxable profit	14	12
Group relief at nil consideration	(1,033)	(1,357)
Withholding taxes	300	80
Total tax charge	276	231

A further change to the main rate of UK corporation tax was enacted in the Finance Act 2016. The UK corporation tax rate will reduce to 19% from 1 April 2017 with a further reduction to 17% from 1 April 2020. There has been no impact on these financial statements arising from these changes.

Changes to the UK loss utilisation and interest deduction rules have been proposed and will take effect on 1 April 2017. These changes have not yet been substantively enacted, so the effect of these changes has not been recongised within these financial statements, however there is likely to be no impact on these financial statements arising from these changes.

Tax recognised in other comprehensive income

In addition to the amounts recognised in the profit and loss account, the following amounts relating to tax have been recognised in other comprehensive income:

	2016 £ 000	2015 £ 000
Deferred tax		
Financial instruments treated as cash flow hedges	(9)	4

13 Intangible assets

	Computer software £ 000	Total £ 000
Cost or valuation		
At 1 January 2016	118	118
At 31 December 2016	118	118
Amortisation		
At 1 January 2016	118	118
At 31 December 2016	118	118
Carrying amount		
At 31 December 2016	-	-

14 Property, plant and equipment

	Land and buildings £ 000	Plant and equipment £ 000	Total £ 000
Cost or valuation			
At 1 January 2016	521	13,003	13,524
Additions	-	251	251
At 31 December 2016	521	13,254	13,775
Depreciation			
At 1 January 2016	284	10,272	10,556
Charge for the year	43	472	515
At 31 December 2016	327	10,744	11,071
Carrying amount			
At 31 December 2016	194	2,510	2,704
At 31 December 2015	237	2,731	2,968

15 Investments

Subsidiaries	£ 000
Cost or valuation	
At 1 January 2015	25,000
At 31 December 2015	25,000
At 1 January 2016	25,000
At 31 December 2016	25,000
Provision for impairment	
At 1 January 2015	25,000
At 31 December 2015	25,000
At 1 January 2016	25,000
At 31 December 2016	25,000
Carrying amount	
At 31 December 2016	-
At 31 December 2015	-
At 1 January 2015	-

15 Investments (continued)

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

Name of subsidiary	Principal activity	Country of incorporation and principal place of business	Proportion of ownership interest and voting rights held 2016	2015
Brush Switchgear Limited*	Dormant	11th Floor, The Colmore Building, 20 Colmore Circus, Queensway, Birmingham, B4 6AT, United Kingdom	100%	100%
Bristol Meci Australasia Pty Limited*	Holding company	2 Frawley Avenue, Narangba, Queensland 4504, Australia	100%	100%
Hawker Siddeley Switchgear Pty Limited	Engineering company	2 Frawley Avenue, Narangba, Queensland 4504, Australia	100%	100%

* owned directly by the Company

All holdings relate to Ordinary Shares unless otherwise stated.

Associates

Details of the associates as at 31 December 2016 are as follows:

Name of associate	Principal activity	Country of incorporation and principal place of business	Proportion of ownership interest and voting rights held 2016	2015
Mediterranean Power Electric Company Limited*	Engineering company	Marsa Industrial Estate, Marsa, MRS 3000, Malta	26%	26%

* owned directly by the Company

16 Inventories

	2016 £ 000	2015 £ 000
Raw materials and consumables	2,021	1,708
Work in progress	1,122	1,421
	3,143	3,129

17 Trade and other receivables

	2016 £ 000	2015 £ 000
Trade receivables	9,538	10,513
Provision for impairment of trade receivables	(16)	(18)
Net trade receivables	9,522	10,495
Receivables from Group undertakings	1,733	50,473
Prepayments and accrued income	1,101	601
Total trade and other receivables	12,356	61,569

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

	2016 £ 000	2015 £ 000
Trade payables	7,182	6,433
Accruals and deferred income	2,633	2,670
Amounts due to Group undertakings	75	201
Social security and other taxes	208	230
Other payables	72	120
	10,170	9,654

19 Loans and borrowings

	2016 £ 000	2015 £ 000
Loans and borrowings - amounts falling due within one year		
Bank overdrafts	51	-

20 Provisions

	Warranties £ 000	Other provisions £ 000	Total £ 000
At 1 January 2016	1,373	738	2,111
Additional provisions charged	508	536	1,044
Provisions utilised	(533)	(525)	(1,058)
At 31 December 2016	1,348	749	2,097
Non-current liabilities	838	-	838
Current liabilities	510	749	1,259

The provision for warranty related costs represents the best estimate of the expenditure required to settle the Company's obligations. Warranty terms are typically between 12 and 18 months.

Other provisions include costs that will be incurred in respect of restructuring programmes, usually resulting in cash spend within one year, and estimated amounts payable in respect of property dilapidation costs, payable on expiry of the lease.

21 Deferred tax

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

2016	Assets £ 000	Liabilities £ 000	Net £ 000
Accelerated tax depreciation	(147)	-	(147)
Other temporary differences	173	-	173
	26	-	26

2015	Assets £ 000	Liabilities £ 000	Net £ 000
Accelerated tax depreciation	-	(181)	(181)
Other temporary differences	-	174	174
	-	(7)	(7)

21 Deferred tax (continued)

	Accelerated tax depreciation £ 000	Other temporary differences £ 000	Total £ 000
At 1 January 2015	(155)	303	148
Recognised in income	(26)	(125)	(151)
Recognised in equity	-	(4)	(4)
At 31 December 2015	(181)	174	(7)

	Accelerated tax depreciation £ 000	Other temporary differences £ 000	Total £ 000
At 1 January 2016	(181)	174	(7)
Recognised in income	34	(10)	24
Recognised in equity	-	9	9
At 31 December 2016	(147)	173	26

22 Pension schemes

Defined contribution pension scheme

The Company operates a defined contribution pension scheme. The assets of the schemes are held separately from those of the Company in funds under the control of trustees. The pension cost charge for the year represents contributions payable by the Company to the scheme and amounted to £417,000 (2015: £420,000).

Contributions totalling £51,000 (2015: £5,000) were payable to the scheme at the end of the year and are included in creditors.

23 Share capital

Allotted, called up and fully paid shares

	2016		2015	
	Number	£ 000	Number	£ 000
Ordinary shares of £0.25 each	6,200,000	1,550	6,200,000	1,550

24 Reserves

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

	Hedging reserve £ 000	Total £ 000
Loss on cash flow hedges	(36)	(36)

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

	Hedging reserve £ 000	Total £ 000
Gain on cash flow hedges	16	16

Hedging reserve

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

25 Dividends

Dividends paid

Amounts recognised as distributions to equity holders:

	2016 £ 000	2015 £ 000
Dividends paid	50,000	9,800

26 Obligations under leases and hire purchase contracts

Operating leases

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

	2016 £ 000	2015 £ 000
Within one year	162	301
In two to five years	131	258
	293	559

The amount of non-cancellable operating lease payments recognised as an expense during the year was £681,000 (2015: £418,000).

27 Commitments

Capital commitments

Capital commitments are as follows:

	2016 £ 000	2015 £ 000
Contracted for additions to property, plant & equipment	100	101

28 Contingent liabilities

As part of the Melrose Group's banking facilities, the Company has entered into a multilateral cross guarantee with certain Group undertakings in respect of Group borrowings. However, as at 31 December 2016 the Group had no borrowings under these facilities.

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:

2016 **Derivative financial instruments**	Assets £ 000	Liabilities £ 000	Net £ 000
Foreign currency forward contracts	19	(45)	(26)

The maturity of derivative financial instruments is as follows:

2016 **Derivative financial instruments**	Assets £ 000	Liabilities £ 000	Net £ 000
Within one year	19	(45)	(26)

2015 **Derivative financial instruments**	Assets £ 000	Liabilities £ 000	Net £ 000
Foreign currency forward contracts	31	-	31

The maturity of derivative financial instruments is as follows:

29 Financial instruments (continued)

2015	**Assets**	**Liabilities**	**Net**
Derivative financial instruments	**£ 000**	**£ 000**	**£ 000**
Within one year	31	-	31

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

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

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

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

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

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

The Company's immediate parent company is Brush Electrical Machines Ltd, a company incorporated in England & Wales.

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

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

Consolidated financial statements are available from:
11th Floor, The Colmore Building, 20 Colmore Circus Queensway, Birmingham, West Midlands, B4 6AT.