

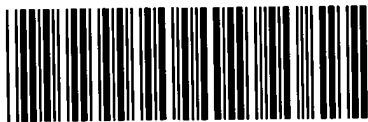
**Rettig (UK) Limited**

**Annual report and financial statements**

**Registered number 00653648**

**31 December 2018**

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## Strategic Report

The directors present their Strategic Report for the year ended 31 December 2018.

### Principle activities

The principal activity of the Company is the manufacture and marketing of heating appliances.

### Business Model

Business is conducted from the Company's two manufacturing operations in Hull and Gateshead and a central distribution centre located in Birtley. Route to market is via an established network of national and provincial wholesalers, mostly in the UK and Republic of Ireland.

Maintaining a strong focus on customer relationship management and the Company's market leading position as a one-stop supplier of heating applications are key differentiators and critical success factors.

### Business Review and results

Rettig (UK) Ltd is a leading manufacturer of steel panel and electric radiators. It also manufactures fan convectors as well as being a distributor of other Rettig company products including valves and controls, decorative radiators, towel rails and underfloor heating systems. Demand for the Company's product range is price sensitive and the directors are constantly searching for new, innovative ways of staying ahead of its competitors.

The UK and Republic of Ireland markets are increasingly challenging due to an influx of cheaper imports from Turkey and China. However, in keeping with the Company's strategy of finding new and innovative ways of staying ahead of its competitors, more new products continue to be launched. The Company is also developing strategies from growth in the home and export markets, including access to a wide range of products within the wider group portfolio. Relationships with key customers remain strong and the Company's service offering continues at the very highest level.

The raw material price increases noted in 2016 and 2017, specifically on steel and brass levelled out during 2018. Due to the long term commercial arrangements there is a significant time lag between raw material price increases and ability to pass this onto the customer; which impacted results in 2016 and 2017. With two customer prices increases during 2017, a further increase early 2018, the Company finally realised increased revenue to cover the additional costs. There was a further price increase on 1<sup>st</sup> Feb 2019 which provides a positive outlook for 2019. The Company continue to strictly control other costs and operating expenses.

Due to a change in the GMP Pension equalisation ruling there was an additional one off administration cost of £905k in 2018, which impacted final results.

### Key Performance Indicators

The directors monitor the performance of the business on a regular basis through various key performance indicators (KPIs). Two of the most important measures of Return on Capital Employed (ROCE) and Complete of Time Delivery (COTD), the latter of which is monitored on a daily basis and is consistently at a level with the directors believe to be the best in the industry. Each of these measures is relevant to the key company objectives of shareholder and customer satisfaction.

Some of the Company's main KPI's are outlined below:

	Year ended 31 December 2018	Year ended 31 December 2017
Turnover (£000)	68,493	65,972
Loss for the year (£000)	(98)	(1,106)
Gross profit margin	20.0%	18.0%
Net assets excluding pension liability (£000)	14,638	14,320
Net assets including pension liability (£000)	11,159	10,283
Cash at bank and in hand (£000)	620	394

## Strategic Report *(continued)*

### Principal risks and uncertainties

The directors continually seek to identify and manage risk in all areas of the business.

Health & Safety matters are reviewed monthly in senior leadership team meetings which also includes a status report on a risk assessment programme that is being conducted on an on-going basis aided by the Company's insurers. The Company prides itself on its Health and Safety record, which remained exceptionally good with no major incidents reported.

The Company's products are predominantly made from steel or brass, which leads to uncertainty caused by sudden fluctuations in commodity prices.

The markets the Company operates in have been highly competitive in recent years as manufacturers and importers strive to utilise surplus capacity.

The Company imports and exports goods and services in foreign currencies. The risk of short to medium term movements in foreign exchange rate is hedged on a rolling basis with the part company's group treasury function.

Brexit continues to bring uncertainty to future import and export trading.

Credit management continues to take high priority, and whilst the Company will continue to increase business by broadening its customer base, the directors are managing the potential risks in doing so extremely diligently.

As panel radiators are relatively homogeneous products, they need to be competitively priced, the main differentiator being customer service and marketing the products as a total heating solution. It is pleasing to report another strong COTD performance and high praise from key customers recognising high levels of customer satisfaction.

The Company is conscious of its environmental responsibilities and continues to drive to become more energy efficient in its manufacturing processes as well as developing energy efficient products that offer saving opportunities to the end customer.

### Future developments

The Company expects the market to remain stable in 2019 with positive industry forecasts. The Company forecasts and projections, taking into account sensitivities in trading performance show that the Company is expected to have available to it a sufficient level of financial resources, and on that basis the directors believe that the Company is well placed to manage its business risks successfully.

Signed on behalf of the Board



L Currie  
Director

Eastern Avenue  
Team Valley Trading Estate  
Gateshead  
Tyne & Wear  
NE11 0PG

16 July 2019

## Directors' Report

The directors present their directors' report for the year ended 31 December 2018.

### Financial instruments

The company's financial instruments comprise cash, share capital and various items that arise from trading (such as trade debtors, trade creditors etc). The main purpose of these financial instruments is financing the company's trading operations.

The company has limited exposure to interest rate risk as it has no external borrowings. The company has significant cash reserves which are considered to be sufficient to cover its ongoing liquidity needs.

### Proposed distributions

The directors do not recommend the payment of a dividend in respect of the current year (2017: £nil).

### Directors

The directors who held office during and subsequent to the year end were as follows:

T Olander	(resigned 4 April 2018)
L Currie	
B Lynch	
A Aarts	(resigned 10 May 2019)
M Conlon	
S Bjorkqvist	(appointed 10 April 2018, resigned 13 May 2019)

### Employees

The company gives every consideration to applications for employment from disabled persons where the requirements of the job may be adequately fulfilled by a handicapped or disabled person. Where existing employees become disabled, it is company policy, wherever practicable, to provide continuing employment under normal terms and conditions and to provide training and career development and promotion whenever appropriate.

During the year, the company maintained arrangements which recognised the importance of keeping employees informed of the progress of the business and involving them in the company's performance. Employees were provided with information regarding the financial and economic factors affecting them as employees.

### Political contributions

The company made no political donations or incurred any political expenditure during the year.

### Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

## **Directors' Report** *(continued)*

### **Auditor**

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the board

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

**L Currie**  
*Director*

Eastern Avenue  
Team Valley Trading Estate  
Gateshead  
Tyne & Wear  
NE11 0PG

16 July 2019

## **Statement of directors' responsibilities in respect of the Strategic Report, the Directors' Report and the financial statements**

The directors are responsible for preparing the Strategic Report, the Directors' 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 they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), 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 for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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 its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



## KPMG LLP

Quayside House  
110 Quayside  
Newcastle upon Tyne  
NE1 3DX  
United Kingdom

### **Independent auditor's report to the members of Rettig (UK) Limited**

#### **Opinion**

We have audited the financial statements of Rettig (UK) Limited ("the company") for the year ended 31 December 2018 which comprise the profit and loss account and other comprehensive income, balance sheet, statement of changes in equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

#### **The impact of uncertainties due to the UK exiting the European Union on our audit**

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.



## **Independent auditor's report to the members of Rettig (UK) Limited *(continued)***

### **Going concern**

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model, including the impact of Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

### **Strategic report and directors' report**

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

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

Under the Companies Act 2006, we are required 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.

We have nothing to report in these respects.

## **Independent auditor's report to the members of Rettig (UK) Limited (*continued*)**

### **Directors' responsibilities**

As explained more fully in their statement 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; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; 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 they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities**

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

### **The purpose of our audit work and to whom we owe our responsibilities**

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.



**Tara Stonehouse (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**  
*Chartered Accountants*  
Quayside House  
110 Quayside  
Newcastle upon Tyne  
NE1 3DX

16 July 2019

**Profit and Loss Account and Other Comprehensive Income**  
*for the year ended 31 December 2018*


	<i>Note</i>	<b>2018</b> <b>£000</b>	<b>2017</b> <b>£000</b>
<b>Turnover</b>	2	<b>68,493</b>	<b>65,972</b>
Cost of sales		<b>(54,811)</b>	<b>(54,104)</b>
<b>Gross profit</b>		<b>13,682</b>	<b>11,868</b>
Distribution costs		<b>(8,297)</b>	<b>(8,528)</b>
Administrative expenses (including exceptional charges of £905,000 (2017: £nil) – see note 6)		<b>(4,770)</b>	<b>(3,555)</b>
Other operating income	3	<b>137</b>	<b>-</b>
<b>Operating profit/(loss)</b>		<b>752</b>	<b>(215)</b>
Interest payable and similar expenses	8	<b>(860)</b>	<b>(914)</b>
Other interest receivable and similar income	9	<b>10</b>	<b>10</b>
<b>Loss before taxation</b>	2-9	<b>(98)</b>	<b>(1,119)</b>
Tax on loss	10	<b>-</b>	<b>13</b>
<b>Loss for the financial year</b>		<b>(98)</b>	<b>(1,106)</b>
<b>Other comprehensive income</b>			
<i>Items that will not be reclassified to profit or loss:</i>			
Remeasurements of defined benefit liability		<b>974</b>	<b>3,091</b>
Deferred tax arising on losses in the defined benefit pension scheme		<b>-</b>	<b>-</b>
<b>Other comprehensive income for the year, net of income tax</b>		<b>974</b>	<b>3,091</b>
<b>Total comprehensive income for the year</b>		<b>876</b>	<b>1,985</b>

The notes on pages 13 to 32 form part of the financial statements.

**Balance Sheet**  
*at 31 December 2018*

	<i>Note</i>	<b>2018</b> <b>£000</b>	<b>2017</b> <b>£000</b>
<b>Fixed assets</b>			
Intangible assets	11	22	95
Tangible fixed assets	12	8,076	7,828
Investments	13	1,362	1,362
		<b>9,460</b>	<b>9,285</b>
<b>Current assets</b>			
Stocks	14	10,744	10,551
Debtors	15	21,574	17,930
Cash at bank and in hand		620	394
		<b>32,938</b>	<b>28,875</b>
<b>Creditors: amounts falling due within one year</b>	17	<b>(27,123)</b>	<b>(23,192)</b>
<b>Net current assets</b>		<b>5,815</b>	<b>5,683</b>
<b>Total assets less current liabilities</b>		<b>15,275</b>	<b>14,968</b>
<b>Creditors: amounts falling due after more than one year</b>	18	<b>(637)</b>	<b>(648)</b>
<b>Provisions for liabilities</b>			
Pension liability	22	(3,479)	(4,037)
<b>Net assets</b>		<b>11,159</b>	<b>10,283</b>
<b>Capital and reserves</b>			
Called up share capital	20	8,307	8,307
Share premium account		4,189	4,189
Capital contribution reserve		12,519	12,519
Other reserves		3,000	3,000
Profit and loss account		(16,856)	(17,732)
<b>Shareholders' funds</b>		<b>11,159</b>	<b>10,283</b>

These financial statements were approved by the board of directors on 16 July 2019 and were signed on its behalf by:

  
**L. Currie**  
Director

Company registered number: 00653648

The notes on pages 13 to 32 form part of the financial statements.

**Statement of Changes in Equity**  
*for the year ended 31 December 2018*

	Called up share capital £000	Share premium account £000	Capital contribution reserve £000	Other reserves £000	Profit and loss account £000	Total equity £000
Balance at 1 January 2017	8,307	4,189	12,519	3,000	(19,717)	8,298
<b>Total comprehensive income for the year</b>						
Loss for the financial year	-	-	-	-	(1,106)	(1,106)
Other comprehensive income	-	-	-	-	3,091	3,091
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total comprehensive income for the year	-	-	-	-	1,985	1,985
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>Balance at 31 December 2017</b>	<b>8,307</b>	<b>4,189</b>	<b>12,519</b>	<b>3,000</b>	<b>(17,732)</b>	<b>10,283</b>
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 1 January 2018	8,307	4,189	12,519	3,000	(17,732)	10,283
<b>Total comprehensive income for the year</b>						
Loss for the financial year	-	-	-	-	(98)	(98)
Other comprehensive income	-	-	-	-	974	974
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total comprehensive income for the year	-	-	-	-	876	876
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>Balance at 31 December 2018</b>	<b>8,307</b>	<b>4,189</b>	<b>12,519</b>	<b>3,000</b>	<b>(16,856)</b>	<b>11,159</b>
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

The company's capital contribution reserve is a distributable reserve as it arises from realised profits.

The notes on pages 13 to 32 form part of the financial statements.

## Notes

*(forming part of the financial statements)*

### 1 Accounting policies

Rettig (UK) Limited (the "Company") is a private company incorporated, domiciled and registered in England, in the UK. The registered number is 00653648 and the registered office is Eastern Avenue, Team Valley Trading Estate, Gateshead, Tyne and Wear NE11 0PG.

These financial statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* ("FRS 101").

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The Company's parent undertaking, Rettig Group Ltd, includes the Company in its consolidated financial statements. The consolidated financial statements of Rettig Group Ltd are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from Bulevarden 46, Fin-00120, Helsingfors, Finland.

In these financial statements, the company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- Cash Flow Statement and related notes;
- Certain disclosures regarding revenue;
- Comparative period reconciliations for share capital, tangible fixed assets and intangible assets;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs;
- Disclosures in respect of the compensation of Key Management Personnel; and
- Disclosures of transactions with a management entity that provides key management personnel services to the company.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 24.

#### 1.1 Measurement convention

The financial statements are prepared on the historical cost basis.

#### 1.2 Going concern

The financial statements have been prepared under the going concern basis. The Company meets its financing requirements through its own positive cash balance. In addition to this the Company has an intra-group facility agreement available for its use should this method of financing be required. The Company's ultimate parent undertaking has indicated its willingness to provide the Company with access to this intra-group cash facility for the foreseeable future.

The current economic conditions and those factors outlined in the Company's Strategic Report do continue to create an element of uncertainty over demand for some of the Company's products. However, the Company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Company is expected to have a sufficient level of financial resources available through current intra-group financing facilities and therefore the directors believe that the Company is well placed to manage its business risks successfully despite this continued economic uncertainty.

## Notes (continued)

### 1 Accounting policies (continued)

The directors have also received a letter of support from the ultimate parent undertaking which indicates that it remains the current intention of that company to continue to provide financial support to the company to enable it to meet its liabilities as the fall due for at least 12 months from the date of approval of these financial statements and not to enforce payment of any intercompany balances in that period.

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Further information on 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.

#### 1.3 Foreign currency

Transactions in foreign currencies are translated to the Company's functional currencies at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the profit and loss account.

#### 1.4 Classification of financial instruments issued by the Company

Following the adoption of IAS 32, financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and
- (b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Where a financial instrument that contains both equity and financial liability components exists these components are separated and accounted for individually under the above policy.

#### 1.5 Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other debtors, cash and cash equivalents, loans and borrowings, and trade and other creditors.

##### *Trade and other debtors*

Trade and other debtors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

##### *Trade and other creditors*

Trade and other creditors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

## Notes (continued)

### 1 Accounting policies (continued)

#### 1.5 Non-derivative financial instruments (continued)

##### *Interest-bearing borrowings*

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

#### 1.6 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets.

Leases in which the Company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Where land and buildings are held under leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and less accumulated impairment losses. Lease payments are accounted for as described below.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Land is not depreciated. The estimated useful lives are as follows:

- Long leasehold land and buildings 40 – 50 years
- Plant, machinery, tooling and vehicles 3 – 10 years

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

#### 1.7 Intangible assets and goodwill

##### *Goodwill*

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units. It is not amortised but is tested annually for impairment. This is not in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 which requires that all goodwill be amortised. The directors consider that this would fail to give a true and fair view of the profit for the year and that the economic measure of performance in any period is properly made by reference only to any impairment that may have arisen. It is not practicable to quantify the effect on the financial statements of this departure.

#### 1.7 Intangible assets and goodwill

##### *Research and development*

Expenditure on research activities is recognised in the profit and loss account as an expense as incurred.

Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Company intends and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the Company can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve a plan or design for the production of new or substantially improved products or processes.



## Notes (continued)

### 1 Accounting policies (continued)

#### 1.7 Intangible assets and goodwill (continued)

##### *Other intangible assets*

Other intangible assets that are acquired by the Company are stated at cost less accumulated amortisation and less accumulated impairment losses.

The cost of an intangible asset acquired in a business combination is its fair value at the acquisition date.

##### *Amortisation*

Amortisation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use.

The estimated useful lives are as follows:

- Licences 5 years

#### 1.8 Government grants

Capital based government grants are included within accruals and deferred income in the balance sheet and credited to the profit and loss account over the estimated useful economic lives of the assets to which they relate.

#### 1.9 Stocks

Stocks are stated at the lower of cost and net realisable value. Cost is based on the weighted average principle and includes expenditure incurred in acquiring the stocks, production or conversion costs and other costs in bringing them to their existing location and condition. In the case of manufactured stocks and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

#### 1.10 Impairment excluding stocks and deferred tax assets

##### *Financial assets (including trade and other debtors)*

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Company would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

## Notes (continued)

### 1 Accounting policies (continued)

#### *Non-financial assets*

The carrying amounts of the Company's non-financial assets, other than stocks and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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 the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units, or ("CGU"). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a *pro rata* basis.

An impairment loss in respect of goodwill is reversed if and only if the reasons for the impairment have ceased to apply.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

#### **1.11 Employee benefits**

##### *Defined contribution plans*

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

##### *Defined benefit plans*

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets (at bid price) are deducted. The Company determines the net interest on the net defined benefit liability/(asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability/(asset).

## Notes (continued)

### 1 Accounting policies (continued)

#### 1.11 Employee benefits (continued)

The discount rate is the yield at the reporting date on bonds that have a credit rating of at least AA that have maturity dates approximating the terms of the Company's obligations and that are denominated in the currency in which the benefits are expected to be paid.

Remeasurements arising from defined benefit plans comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). The Company recognises them immediately in other comprehensive income and all other expenses related to defined benefit plans in employee benefit expenses in profit or loss.

When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised immediately in profit or loss when the plan amendment or curtailment occurs.

The calculation of the defined benefit obligations is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, the recognised asset is limited to the present value of benefits available in the form of any future refunds from the plan or reductions in future contributions and takes into account the adverse effect of any minimum funding requirements.

##### *Short-term benefits*

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

##### *Termination benefits*

Termination benefits are recognised as an expense when the company is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the company has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

#### 1.12 Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

#### 1.13 Turnover

Turnover represents the amount receivable in the ordinary course of business from the provision of goods to customers. Turnover is measured at the fair value of the right to consideration net of sales related rebates, discounts and value added tax.

The Company recognises revenue once the risks and rewards of ownership have transferred.

## Notes (continued)

### 1 Accounting policies (continued)

#### 1.14 Expenses

##### *Operating lease payments*

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease. Lease incentives received are recognised in the profit and loss account as an integral part of the total lease expense.

##### *Finance lease payments*

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

##### *Interest payable and Interest receivable*

Interest payable and similar expenses include interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the profit and loss account (see foreign currency accounting policy). Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset. Other interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in the profit and loss account on the date the entity's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

#### 1.15 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

## Notes (continued)

### 1 Accounting policies (continued)

#### 1.16 Change in significant accounting policies

None of the Adopted IFRSs, which became effective for the first time, had a significant impact on either the company's result for the year or equity.

IFRS 9 Financial Instruments (effective date 1 January 2018) - The standard contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. The directors assessment of the impact of IFRS 9 was an immaterial amount. The only balance impacted by the change was trade and other receivables. Given the impact is immaterial no retrospective adjustments have been made and as such there is no impact on transition.

IFRS 15 Revenue from contracts with customers (effective date 1 January 2018) - The standard establishes a comprehensive framework for determining whether, how much and when revenue is recognised. The directors assessment of the impact of IFRS 15 was an immaterial amount. Given the impact is immaterial no retrospective adjustments have been made and as such there is no impact on transition.

### 2 Turnover

Turnover is attributable to the Company's principal activity and arises primarily in the United Kingdom from the sales of goods. The analysis of turnover by geographical destination is as follows:

	2018 £000	2017 £000
United Kingdom	58,802	55,779
Europe	8,725	9,228
Rest of World	966	965
	<u>68,493</u>	<u>65,972</u>

### 3 Other operating income

	2018 £000	2017 £000
Research and development tax credit	117	-
Net gain on disposal of tangible fixed assets	20	-
	<u>137</u>	<u>-</u>

## Notes (continued)

### 4 Expenses and auditor's remuneration

	2018 £000	2017 £000
<i>Loss before taxation is stated after charging/(crediting):</i>		
Depreciation and other amounts written off tangible fixed assets:		
Owned	971	981
Leased	12	12
Amortisation of licences	73	92
Exchange gains	-	(22)
Hire of plant and machinery – rentals payable under operating lease	440	440
Hire of other assets – operating lease	198	123
Research and development expenditure	1,008	826
Restructuring costs	22	21
Release of government grant	(10)	(10)
	<hr/>	<hr/>
<i>Auditor's remuneration:</i>	2018 £000	2017 £000
Audit of these financial statements	51	51
<i>Amounts receivable by the auditors and their associates in respect of:</i>		
Taxation compliance services	16	10
All other services	6	9
	<hr/>	<hr/>

### 5 Directors' remuneration

	2018 £000	2017 £000
Directors' remuneration	610	600
Company contributions to money purchase plans	36	38
	<hr/>	<hr/>

The aggregate remuneration of the highest paid director was £288,610 (2017: £271,879) and company pension contributions of £22,927 (2017: £21,368) were made to a money purchase plan on their behalf.

	Number of directors 2018	2017
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	3	4
	<hr/>	<hr/>

### 6 Exceptional administrative expenses

	2018 £000	2017 £000
Guaranteed minimum pension equalisation charges (see note 22)	905	
	<hr/>	<hr/>

In October 2018 the High Court published its judgement on the case of Lloyds Banking Group and the equalisation of Guaranteed Minimum Pensions ('GMP'). This has consequently been assessed against the Company's defined benefit scheme and the pension liability increased accordingly.

## Notes (continued)

### 7 Staff numbers and costs

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

	Number of employees	
	2018	2017
Direct	153	153
Sales and administration	152	154
	<u>305</u>	<u>307</u>

The aggregate payroll costs of these persons were as follows:

	2018 £000	2017 £000
Wages and salaries	8,876	8,721
Social security costs	907	870
Other pension costs – defined contribution scheme (note 22)	887	776
	<u>10,670</u>	<u>10,367</u>

### 8 Interest payable and similar expenses

	2018 £000	2017 £000
On amounts owed to group undertakings	97	40
Net interest expense on net defined benefit obligation	94	203
Finance charges in respect of finance leases and hire purchase contracts	669	669
Other	-	2
	<u>860</u>	<u>914</u>

### 9 Other interest receivable and similar income

	2018 £000	2017 £000
On amounts due from group undertakings	10	10

### Notes (continued)

## 10 Taxation

**Total tax expense recognised in the profit and loss account**

	2018 £000	2017 £000	2017 £000	£000
<i>Current tax</i>				
Current tax on income for the period		-		-
Adjustment in respect of prior periods		-		(13)
		<hr/>		<hr/>
Total current tax		-		(13)
<i>Deferred tax (note 16)</i>				
Origination/reversal of timing differences	-		-	
Reduction in tax rate	-		-	
	<hr/>		<hr/>	
Total deferred tax		-		-
		<hr/>		<hr/>
Total tax		-		(13)

For the year ended 31 December 2018, the company was subject to corporation tax at 19% (2017: 19.25%).

	2018 £000	2017 £000
<b>Total tax expense recognised in other comprehensive income</b>		
<i>Deferred tax (see note 16)</i>		
Deferred tax arising on losses in the defined benefit pension scheme	-	-
	<hr/>	<hr/>
	<b>2018 £000</b>	<b>2018 £000</b>
<b>Reconciliation of effective tax rate</b>		
Loss for the year	(98)	(1,106)
Total tax income	-	(13)
	<hr/>	<hr/>
Loss excluding taxation	(98)	(1,119)
	<hr/>	<hr/>
Tax using the UK corporation tax rate of 19% (2017: 19.25%)	(19)	(215)
Non-deductible expenses	279	264
Non-taxable income	(22)	-
Current year timing differences for which no deferred tax asset was recognised	(238)	(49)
Under/(over) provided in prior years	-	(13)
	<hr/>	<hr/>
Total tax (income)/expense	-	(13)



## Notes (continued)

### 10 Taxation (continued)

#### *Factors that may affect future current and total charge*

A reduction in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015. An additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the future current tax charge accordingly.

The Company has UK corporation tax losses of £9.0m (2017: £8.2m) to carry forward against future taxable profits. This asset has not been recognised due to uncertainties regarding future recoverability (see note 16).

### 11 Intangible fixed assets

	Licences £000	Goodwill £000	Total £000
<b>Cost</b>			
At beginning of year	460	4,333	4,793
Additions	-	-	-
	<hr/>	<hr/>	<hr/>
At end of year	460	4,333	4,793
	<hr/>	<hr/>	<hr/>
<b>Amortisation</b>			
At beginning of year	365	4,333	4,698
Amortisation for the year	73	-	73
	<hr/>	<hr/>	<hr/>
At end of year	438	4,333	4,771
	<hr/>	<hr/>	<hr/>
<b>Net book value</b>			
At 31 December 2018	22	-	22
	<hr/>	<hr/>	<hr/>
At 31 December 2017	95	-	95
	<hr/>	<hr/>	<hr/>

The goodwill was fully amortised over 5 years prior to the adoption of FRS 101.

## Notes (continued)

### 12 Tangible fixed assets

	Long leasehold land and buildings £000	Plant, machinery, tooling and vehicles £000	Total £000
<b>Cost</b>			
At beginning of year	7,509	36,678	44,187
Additions	45	1,186	1,231
Disposals	-	(452)	(452)
	<hr/>	<hr/>	<hr/>
At end of year	7,554	37,412	44,966
	<hr/>	<hr/>	<hr/>
<b>Depreciation</b>			
At beginning of year	4,408	31,951	36,359
Charge for year	189	794	983
Disposals	-	(452)	(452)
	<hr/>	<hr/>	<hr/>
At end of year	4,597	32,293	36,890
	<hr/>	<hr/>	<hr/>
<b>Net book value</b>			
At 31 December 2018	2,957	5,119	8,076
	<hr/>	<hr/>	<hr/>
At 31 December 2017	3,101	4,727	7,828
	<hr/>	<hr/>	<hr/>

#### *Leased land and buildings*

At 31 December 2018 the net carrying amount of leased land and buildings was £12,369 (2017: £24,738) and depreciation for the year on this asset was £12,369 (2017: £12,369).

### 13 Fixed asset investments

	Shares in group undertakings £000
<b>Cost</b>	
At beginning and end of year	2,374
	<hr/>
<b>Provisions</b>	
At beginning and end of year	1,012
	<hr/>
<b>Net book value</b>	
At 31 December 2017 and 31 December 2018	1,362
	<hr/>

## Notes (continued)

### 13 Fixed asset investments (continued)

The subsidiary undertaking of the Company at the year end is as follows:

	Class and percentage of shares held	Principal activity	Country of incorporation
Vogel & Noot Products Limited	100% ordinary	Non-trading	UK

Vogel & Noot Products Limited is in the process of being dissolved.

The registered office of the subsidiary undertaking is: KPMG LLP, 1 Sovereign Square, Sovereign Street, Leeds, LS1 4DA.

### 14 Stocks

	2018 £000	2017 £000
Raw materials and consumables	4,114	4,220
Work in progress	386	370
Finished goods and goods for resale	6,244	5,961
	<u>10,744</u>	<u>10,551</u>

Raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales in the year amounted to £42.7m (2017: £42.8m).

Stock is stated after provisions for impairment of £0.4m (2017: £0.2m).

### 15 Debtors

	2018 £000	2017 £000
Trade debtors	12,179	10,277
Amounts owed by group undertakings	8,627	6,856
Corporation tax	157	47
Prepayments and accrued income	611	750
Deferred tax assets (note 16)	-	-
	<u>21,574</u>	<u>17,930</u>

Trade debtors is stated after provisions for impairment of £nil (2017: £0.1m).

## Notes (continued)

### 16 Deferred tax assets and liabilities

	Deferred taxation £000
At beginning of year – asset (note 15)	-
Credit to the profit and loss for the year (note 10)	-
Amounts included in Other Comprehensive Income	-
	<hr/>
At end of year	-
	<hr/>

Deferred tax assets/(liabilities) are attributable to the following:

	2018 £000	2017 £000
Pensions	-	-
	<hr/>	<hr/>

The deferred tax assets brought forward have not been recognised on the basis it is not certain when sufficient taxable profits will be available to utilise these assets. In addition, a deferred tax asset of £1.5m (2017: £1.5m), arising primarily on unrelieved UK corporation tax losses, has not been recognised due to uncertainty surrounding the future recoverability against taxable profits.

### 17 Creditors: amounts falling due within one year

	2018 £000	2017 £000
Trade creditors	6,022	5,959
Amounts owed to group undertakings	11,456	8,781
Taxes and social security	1,473	1,128
Accruals and deferred income	8,171	7,323
Obligations under finance leases (note 19)	1	1
	<hr/>	<hr/>
	27,123	23,192
	<hr/>	<hr/>

### 18 Creditors: amounts falling due after more than one year

	2018 £000	2017 £000
Deferred income	32	42
Obligations under finance leases (note 19)	605	606
	<hr/>	<hr/>
	637	648
	<hr/>	<hr/>

Deferred income relates to government grants.

## Notes (continued)

### 19 Interest bearing loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing borrowings, which are measured at amortised cost.

	2018 £000	2017 £000
<b>Creditors falling due within less than one year</b>		
Finance lease liabilities	1	1
	<u>1</u>	<u>1</u>
<b>Creditors falling due more than one year</b>		
Finance lease liabilities	605	606
	<u>605</u>	<u>606</u>

The finance lease liability is secured against the asset to which it relates.

#### Terms and debt repayment schedule

	Currency	Nominal interest rate	Year of maturity	2018 £000	2017 £000
Finance lease liabilities	GBP	8%	2068	606	607
				<u>606</u>	<u>607</u>

#### Finance lease liabilities

Finance lease liabilities are payable as follows:

	2018			2017		
	Minimum lease payments £000	Interest £000	Principal £000	Minimum lease payments £000	Interest £000	Principal £000
Less than one year	671	670	1	671	670	1
Between one and five years	2,683	2,678	5	2,683	2,678	5
More than five years	30,181	29,581	600	30,852	30,251	601
	<u>33,535</u>	<u>32,929</u>	<u>606</u>	<u>34,206</u>	<u>33,599</u>	<u>607</u>

### 20 Capital and reserves

	2018 £000	2017 £000
<b>Share capital</b>		
<i>Allotted, called up and fully paid</i>		
83,073,868 Ordinary shares of 10p each	8,307	8,307
	<u>8,307</u>	<u>8,307</u>

## Notes (continued)

### 21 Operating leases

- (i) Non-cancellable operating lease rentals are payable as follows:

	2018		2017	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Less than one year	188	260	161	292
Between one and five years	683	90	654	303
More than five years	1,837	-	1,308	-
	<u>2,708</u>	<u>350</u>	<u>2,123</u>	<u>595</u>

- (ii) Capital commitments at the end of the financial year for which no provision has been made, are as follows:

	2018 £000	2017 £000
Contracted	<u>122</u>	<u>411</u>

### 22 Employee benefits

The Company operates a pension scheme, The Rettig Heating Group UK Pension Scheme ('the Scheme'), which has both a defined benefit and defined contribution section.

The scheme is funded with the assets being held by the trustees separately from the assets of the Company.

The defined benefit section of the scheme was closed from 30 June 2005, at which time members ceased to accrue benefits on a defined benefit basis.

#### *Defined contribution pension scheme*

The Company operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the Company to the scheme and amounted to £887,000 (2017: £776,000).

Contributions amounting to £79,000 (2017: £69,000) were payable to the scheme at 31 December 2018 and are included in creditors.

## Notes (continued)

### 22 Employee benefits (continued)

#### *Defined benefit pension scheme*

The Company operates a pension scheme providing benefits based on final pensionable pay. The latest full actuarial valuation was carried out at 31 March 2013 by a qualified independent actuary.

	2018 £000	2017 £000
Present value of funded defined benefit obligations	(47,573)	(50,060)
Fair value of plan assets	44,094	46,023
	<hr/>	<hr/>
Pension liability	(3,479)	(4,037)
	<hr/> <hr/>	<hr/> <hr/>

#### *Movements in present value of defined benefit obligation*

	2018 £000	2017 £000
At 1 January	50,060	52,000
Current service cost	257	185
Past service cost	905	-
Interest expense	1,235	1,407
Remeasurement (gains)/losses	(3,252)	310
Benefits paid	(1,632)	(3,842)
	<hr/>	<hr/>
At 31 December	47,573	50,060
	<hr/> <hr/>	<hr/> <hr/>

#### *Movements in fair value of plan assets*

	2018 £000	2017 £000
At 1 January	46,023	44,420
Interest expense	1,141	1,204
Remeasurement (losses)/gains	(2,278)	3,401
Contributions paid by the employer	840	840
Benefits paid	(1,632)	(3,842)
	<hr/>	<hr/>
At 31 December	44,094	46,023
	<hr/> <hr/>	<hr/> <hr/>

## Notes (continued)

### 22 Employee benefits (continued)

#### Expenses recognised in the profit and loss account

	2018 £000	2017 £000
Net interest cost (note 8)	94	203
Current service cost	257	185
Past service cost (note 6)	905	-
Total	<u>1,256</u>	<u>388</u>

The expense is recognised in the following line items in the profit and loss account:

	2018 £000	2017 £000
Interest payable and similar charges	94	203
Administrative expenses	1,162	185
	<u>1,256</u>	<u>388</u>

The total amount recognised in the Other Comprehensive Income in respect of remeasurement gains and losses (before impact of deferred tax) is a gain of £974,000 (2017: £3,091,000).

The fair value of the plan assets were as follows:

	2018 Fair value £000	2017 Fair value £000
Equities	-	23,258
Bonds	20,848	22,502
Cash	284	263
Derivatives	8,561	-
Investment funds	14,401	-
	<u>44,094</u>	<u>46,023</u>

At 31 December 2018, none of the scheme assets related to self-investment.

Principal actuarial assumptions (expressed as weighted averages) at the year end were as follows:

	2018 %	2017 %
Discount rate	2.9	2.5
Rate of increase of pensions in payment (RPI)	3.2	3.2
Rate of increase of pensions in payment (CPI)	2.2	2.2
Future salary increases	n/a	n/a
Inflation (RPI)	3.25	3.25
Inflation (CPI)	2.25	2.25



## Notes (continued)

### 22 Employee benefits (continued)

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65-year old to live for a number of years as follows:

- Male future lifetime from age 65 (currently aged 65): 21.0 years (2017: 21.0 years).
- Male future lifetime from 65 (currently aged 40): 23.0 years (2017: 23.0 years).
- Female future lifetime from age 65 (currently aged 65): 23.0 years (2017: 23.0 years).
- Female future lifetime from 65 (currently aged 40): 25.0 years (2017: 25.0 years).

The calculation of the defined benefit obligation is sensitive to the assumptions set out above. The following table summarises the impact on the defined benefit obligation, as an (increase)/decrease in the deficit, at the end of the period as a result of the following sensitivities applied:

	2018 £000	2017 £000
Increase in discount rate by 0.5%	250	299
Increase in pension increase assumption by 0.5%	(223)	(238)
Increase of 1 year on the life expectancy	(146)	(161)

The Company expects to contribute approximately £0.8m to its defined benefit plans in the next financial year.

### 23 Ultimate parent company and parent undertaking of larger group of which the company is a member

The Company is a subsidiary undertaking of Rettig ICC B.V, which is the immediate controlling party.

The only group in which the results of the Company are consolidated is that headed by Rettig Group Ltd. The consolidated accounts of this company are available to the public and may be obtained from Bulevarden 46, Fin-00120 Helsingfors, Finland.

The Company's ultimate parent company is Rettig Capital Oy Ab, a holding company incorporated in Finland.

## Notes (continued)

### 24 Accounting estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The following judgements have had the most significant effect on amounts recognised in the financial statements:

#### *Taxation*

Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits (note 16).

#### *Defined benefit pension liability*

The cost of defined benefit pensions plans are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long term nature of these plans, such estimates are subject to significant uncertainty. Management engage independent, qualified actuaries to assist in this process and in turn assess the appropriateness of key actuarial assumptions. For example, in determining the appropriate discount rate, the interest rates of relevant corporate bonds with extrapolated maturities corresponding to the expected duration of the defined benefit obligation are considered. The mortality rate is based on publicly available mortality tables for the specific country. Future pension increases are based on expected future inflation rates for the respective country. See note 22 for further details.