

# **MAN Diesel & Turbo UK Ltd**

## **Annual report and financial statements**

**for the year ended 31 December 2014**



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## Strategic report for the year ended 31 December 2014

The directors present their strategic report for the year ended 31 December 2014.

### Principal activities

MAN Diesel & Turbo UK Ltd ("the Company") is engaged in the manufacture, installation and commissioning of diesel engines (and the supply of spare parts and service for these engines) as well as the provision of maintenance and repair services to operators of turbo machinery in the UK oil, gas and petrochemical industries.

### Future developments

In addition to spare parts for UK manufactured diesel engines, the Company is increasingly focused on its turbo after sales business and field service support for engines manufactured by MAN outside the UK.

### Business review

Order intake for 2014 was £62,093,000 (2013: £97,513,000); 36% lower than 2013. This was due to a large one-off order for new equipment received in 2013.

The Company is focussed primarily on after sales markets both in the UK and throughout the world.

Revenue in the year ended 31 December 2014 was £60,813,000 (2013: £63,112,000); just under 4% lower than 2013.

The Company delivered a return on sales of 27.3% (2013: 27.2%)

The operating profit for the financial year was £16,607,000 (2013: £17,173,000). During the year the Company completed a land sale agreement with two residential property developers. The net profit on disposal of the land amounted to £3,703,000 which has been reported within other income (see note 3).

The underlying operating profit (excluding land sale) reduced by approximately £4 million compared to 2013. This was primarily due to an increased proportion of lower margin new equipment supplied in 2014 when compared to 2013.

Profit for the year attributable to owners of the Company was £12,803,000 (2013: £12,135,000).

### Key performance indicators (KPIs)

Management uses a range of performance measures to monitor and manage the business. The KPIs measure past performance and also provide information to allow the directors to manage the business into the future. Order intake indicates the volume of work secured whilst revenue and operating profit indicate the volume of work carried out and its profitability. KPIs for 2014 are shown in the table below, along with prior year comparatives.

	2014	2013	% change in year
Order intake	£62.09m	£97.51m	-36.3%
Revenue	£60.81m	£63.11m	-3.6%
Operating profit	£16.61m	£17.17m	-3.3%
Return on sales %	27.3%	27.2%	+0.4%

By order of the board



Miss A L Durose  
Company secretary  
5 May 2015

## **Directors' report for the year ended 31 December 2014**

The directors present their annual report and the audited financial statements for the year ended 31 December 2014.

### **Principal activities**

Details of the Company's principal activities are included within the strategic report on page 1.

### **Future developments**

An indication of the likely future developments of the business is indicated in the strategic report on page 1.

### **Key performance indicators (KPIs)**

Details of key performance indicators are included within the strategic report on page 1.

### **Risks and uncertainties**

The directors consider that the worldwide political and economic climate remains uncertain in many areas, including various markets in which the Company continues to operate.

The Company attempts to mitigate these risks by exploring other business opportunities originating throughout the Group that present themselves within the UK.

### **Financial risk management**

Details of the financial and risk management policies are included on pages 39 to 41.

### **Dividends**

The directors have proposed a final ordinary dividend in respect of the current financial year of £7,200,000 / £0.63 per share. This has not been included within payables because it was not proposed before the year end.

Dividends paid during the year comprise of a final ordinary dividend of £11,700,000 / £1.025 per share in respect of the previous year ended 31 December 2013.

### **Directors**

The directors of the Company who served during the year and up to the date of signing the financial statements are as follows:

Dr S J Timmermann ( resigned 1<sup>st</sup> October 2014 )  
Mr W Jones  
Mr A G P Bellamy  
Mr K M Bader  
Dr Maik Tiedemann ( appointed 30<sup>th</sup> January 2015 )

### **Directors' indemnities**

As permitted by the Articles of Association, the Company's ultimate parent company (Volkswagen AG) purchased and maintained throughout the financial year directors' and officers' liability insurance in respect of the Group and its directors.

## **Directors' report for the year ended 31 December 2014 (continued)**

### **Employees**

The Company's policy is to consult and discuss with employees through departmental and Company meetings, matters likely to affect employee's interests.

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure their employment with the company continues and the appropriate training is arranged. It is the policy of the company that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer a disability.

It is the policy of the Company to provide information to and involve employees in its affairs using a range of communications techniques including consultation meetings, presentations and printed material.

### **Political and charitable contributions**

During the year the Company made charitable donations of £408 (2013: £3,405).

### **Statement of directors' responsibilities**

The directors are responsible for preparing the strategic report, 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 the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union 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.

## **Directors' report for the year ended 31 December 2014 (continued)**

### **Disclosure of information to auditors**

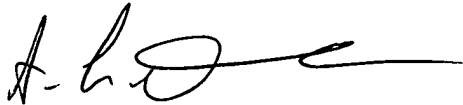
In accordance with Section 418 of the Companies Act 2006, the directors who held office at the date of approval of this directors' report confirm that:

- (a) So far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- (b) He has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

### **Independent auditors**

A resolution is to be proposed for the re-appointment of PricewaterhouseCoopers LLP as auditors of the Company.

By order of the board



**Miss A L Durose**  
*Company secretary*  
5 May 2015

# ***Independent auditors' report to the members of MAN Diesel & Turbo UK Ltd***

## **Report on the financial statements**

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### **Our opinion**

In our opinion, MAN Diesel & Turbo UK Ltd's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2014 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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### **What we have audited**

MAN Diesel & Turbo UK Ltd's financial statements comprise:

- the Statement of financial position as at 31 December 2014;
- the Income statement for the year then ended;
- the Statement of comprehensive income
- the Statement of cash flows for the year then ended;
- the Statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

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### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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### **Other matters on which we are required to report by exception**

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#### **Adequacy of accounting records and information and explanations received**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.

#### **Directors' remuneration**

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

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## Responsibilities for the financial statements and the audit

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### Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 3, 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) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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### What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual report and financial statements 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.



Hazel Macnamara (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Manchester  
5 May 2015



**Income statement**  
*for the year ended 31 December 2014*

	<i>Note</i>	<b>2014</b> <b>£000</b>	<b>2013</b> <b>£000</b>
<b>Continuing operations</b>			
Revenue	2	<b>60,813</b>	63,112
Cost of sales		<b>(40,059)</b>	(38,835)
<b>Gross profit</b>		<b>20,754</b>	24,277
Distribution costs		<b>(5,467)</b>	(5,578)
Administrative expenses		<b>(1,635)</b>	(1,564)
Other income	3	<b>3,910</b>	798
Other expenses		<b>(955)</b>	(760)
<b>Operating profit</b>	4	<b>16,607</b>	17,173
Finance income		<b>4,127</b>	3,741
Finance expense		<b>(5,619)</b>	(4,866)
<b>Net finance costs</b>	7	<b>(1,492)</b>	(1,125)
<b>Profit before income tax</b>		<b>15,115</b>	16,048
Income tax expense	8	<b>(2,312)</b>	(3,913)
<b>Profit for the year attributable to owners of the Company</b>		<b>12,803</b>	12,135

The notes on pages 12 to 41 are an integral part of these financial statements.

**Statement of comprehensive income**  
*for the year ended 31 December 2014*

	<i>Note</i>	<b>2014</b> <b>£000</b>	2013 £000
<b>Profit for the year attributable to owners of the Company</b>		<b>12,803</b>	12,135
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<b>Other comprehensive income</b>			
Items that will not be reclassified to profit or loss -			
Actuarial gain/(losses) on defined benefit pension plans	17	<b>3,650</b>	(4,401)
Deferred tax / current tax on other comprehensive income recognised directly in equity / income statement	12	<b>(887)</b>	1,012
Impact of change in corporation tax rate	12	<b>(220)</b>	(558)
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<b>Other comprehensive income/(expense) for the year, net of income tax</b>		<b>2,543</b>	(3,947)
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<b>Total comprehensive income for the year attributable to equity owners of the Company</b>		<b>15,346</b>	8,188
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The notes on pages 12 to 41 are an integral part of these financial statements.


## Statement of financial position

at 31 December 2014

	Note	2014 £000	2013 £000
<b>Non-current assets</b>			
Property, plant and equipment	9	4,886	7,874
Investments in subsidiaries	10	2	2
Deferred income tax assets	12	4,710	6,215
		<u>9,598</u>	<u>14,091</u>
<b>Current assets</b>			
Inventories	13	27,962	25,765
Trade and other receivables	14	18,822	13,957
Cash and cash equivalents (including related party deposits)	15	21,143	20,092
Other financial assets	11	120	-
		<u>68,047</u>	<u>59,814</u>
<b>Total assets</b>		<u>77,645</u>	<u>73,905</u>
<b>Current liabilities</b>			
Trade and other payables	16	(14,108)	(7,189)
Current income tax payable		(1,089)	(1,860)
Provisions for other liabilities and charges	18	(2,482)	(2,988)
Other financial liabilities	11	(499)	(152)
		<u>(18,178)</u>	<u>(12,189)</u>
<b>Non-current liabilities</b>			
Employee benefits	17	(22,007)	(27,888)
Provisions for other liabilities and charges	18	(64)	(78)
		<u>(22,071)</u>	<u>(27,966)</u>
<b>Total liabilities</b>		<u>(40,249)</u>	<u>(40,155)</u>
<b>Net assets</b>		<u>37,396</u>	<u>33,750</u>
<b>Equity</b>			
Share capital	19	11,412	11,412
Retained earnings		25,984	22,338
<b>Total equity</b>		<u>37,396</u>	<u>33,750</u>

The notes on pages 12 to 41 are an integral part of these financial statements.

These financial statements on pages 7 to 41 were approved by the Board of Directors on 5 May 2015 and were signed on its behalf by:



**A Bellamy** (Director)  
MAN Diesel & Turbo UK Ltd

Registered number 759517

**Statement of changes in equity**  
*for the year ended 31 December 2014*

	<i>Note</i>	<b>Share capital £000</b>	<b>Retained earnings £000</b>	<b>Total equity £000</b>
<b>Balance at 1 January 2013</b>		<b>11,412</b>	<b>25,550</b>	<b>36,962</b>
<b>Comprehensive income</b>				
Profit for the year attributable to owners of the Company		-	12,135	12,135
<b>Other comprehensive income</b>				
Actuarial losses on defined benefit pension plans	17	-	(4,401)	(4,401)
Deferred tax on other comprehensive income recognised directly in equity	12	-	454	454
Total other comprehensive income		-	(3,947)	(3,947)
<b>Total comprehensive income</b>		<b>-</b>	<b>8,188</b>	<b>8,188</b>
<b>Transactions with owners</b>				
Dividends paid to equity holders of the Company		-	(11,400)	(11,400)
<b>Balance at 31 December 2013</b>		<b>11,412</b>	<b>22,338</b>	<b>33,750</b>
<b>Comprehensive income</b>				
Profit for the year attributable to owners of the Company		-	12,803	12,803
<b>Other comprehensive income</b>				
Actuarial gains on defined benefit pension plans	17	-	3,650	3,650
Deferred tax on other comprehensive income recognised directly in equity	12	-	(1,107)	(1,107)
Total other comprehensive income		-	2,543	2,543
<b>Total comprehensive income</b>		<b>-</b>	<b>15,346</b>	<b>15,346</b>
<b>Transactions with owners</b>				
Dividends paid to equity holders of the Company		-	(11,700)	(11,700)
<b>Balance at 31 December 2014</b>		<b>11,412</b>	<b>25,984</b>	<b>37,396</b>

The notes on pages 12 to 41 are an integral part of these financial statements.

**Statement of cash flows**  
*for the year ended 31 December 2014*

	<i>Note</i>	<b>2014</b> <b>£000</b>	2013 £000
<b>Cash flows from operating activities</b>			
Profit for the year attributable to owners of the Company		<b>12,803</b>	12,135
Taxation	8	<b>2,312</b>	3,913
Depreciation and amortisation	9, 10	<b>568</b>	647
Finance income	7	<b>(4,127)</b>	(3,741)
Finance expense	7	<b>5,619</b>	4,866
Profit on the disposal of property, plant and equipment	3	<b>(3,714)</b>	(11)
		<b>13,461</b>	17,809
<b>Changes in working capital</b>			
Trade and other receivables		<b>210</b>	4,228
Inventories		<b>(2,197)</b>	(2,491)
Trade and other payables		<b>3,078</b>	211
Provisions and employee benefits		<b>(4,064)</b>	(3,341)
		<b>10,488</b>	16,416
Interest paid	7	<b>(5)</b>	(5)
Income tax paid		<b>(2,685)</b>	(2,830)
<b>Net cash generated from operating activities</b>		<b>7,798</b>	13,581
<b>Cash flows from investing activities</b>			
Proceeds from sale of property, plant and equipment		<b>5,086</b>	11
Interest received	7	<b>53</b>	75
Purchases of property, plant and equipment	9	<b>(186)</b>	(101)
<b>Net cash used in investing activities</b>		<b>4,953</b>	(15)
<b>Cash flows from financing activities</b>			
Dividends paid	25	<b>(11,700)</b>	(11,400)
<b>Net cash used in financing activities</b>		<b>(11,700)</b>	(11,400)
<b>Net increase in cash and cash equivalents</b>		<b>1,051</b>	2,166
<b>Cash and cash equivalents at 1 January</b>		<b>20,092</b>	17,926
<b>Cash and cash equivalents at 31 December</b>	15	<b>21,143</b>	20,092

The notes on pages 12 to 41 are an integral part of these financial statements.

## Notes to the financial statements

### 1 Statement of accounting policies

MAN Diesel & Turbo UK Ltd (the "Company") is a private limited company and is incorporated and domiciled in the UK. The address of its registered office is 1 Mirrlees Drive, Hazel Grove, Stockport, Cheshire, SK7 5BP.

These financial statements have been prepared in accordance with EU Endorsed International Financial Reporting Standards (IFRS), IFRIC interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared on the going concern basis under the historical cost convention.

The Company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare group financial statements as its results are included in the consolidated financial statements of MAN Diesel & Turbo SE (see note 26). These financial statements present information about the Company as an individual undertaking and not about its Group.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The directors consider that the following areas involve a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements:

#### *Deferred tax (Note 12)*

Deferred tax assets are recognised on the basis that the Company considers it more likely than not that there will be future taxable profits to offset against these assets.

#### *Impairment of trade receivables (Note 14)*

The Company reviews trade receivables on an ongoing basis and exercises judgement to determine whether any specific impairments have become apparent.

#### *Classification of cash and cash equivalents (Note 15)*

It is the Company's judgement that amounts held on deposit with the Parent Company, MAN SE meet the definition of cash and cash equivalents under IFRS based on the factors outlined in note 16 to the financial statements.

#### *Employee benefits (Note 17)*

The Company has exercised judgement and applied assumptions in determining defined benefit pension liabilities. These assumptions are outlined in note 18 to the financial statements. Revised IAS19 has been adopted in the year. The prior year has not been restated as the impact is not material.

#### *Provisions (Note 18)*

The Company has estimated the economic outflow arising with respect to warranty, contract losses and claims and restructuring and reorganisation as outlined in note 19 to the financial statements.

### *New standards, amendments to standards or interpretations*

The following standards have been adopted by the group for the first time for the financial year beginning on or after 1 January 2014 and did not have a significant impact on the Company financial statements:

- IFRS 10 - Consolidated financial statements
- IFRS 11 - Joint arrangements
- IFRS 12 - Disclosures of interests in other entities
- Amendment to IAS 32 - Financial instruments: Presentation
- Amendments to IAS 36 - Impairment of assets
- Amendment to IAS 39 - Financial instruments: Recognition and measurement

## Notes to the financial statements (continued)

### 1 Statement of accounting policies (continued)

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these consolidated financial statement. None of these are expected to have a significant effect on the Company financial statements.

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

#### *Revenue*

Revenue is shown net of Value Added Tax and represents the amount of goods sold, services provided, fees earned and commissions receivable during the year.

The Company records transactions as revenue when the product is dispatched for delivery or performance of service is completed in accordance with the terms of sale and commission revenue is recognised upon delivery of the equipment to the customers from Group manufacturing entities.

#### *Other income*

Income arising from indirect trade activities is treated as other income.

#### *Expenses*

##### *Operating lease payments*

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense over the term of the lease.

##### *Net financing costs*

Net financing costs comprise interest payable and interest receivable on funds invested.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method.

#### *Foreign currency*

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. 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.

#### *Derivative financial instruments and hedging*

##### *Derivative financial instruments*

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

During the year there has been a change in accounting policy with regards to the classification of gains/ losses on remeasurement to fair value of the derivative financial instruments to align the Company accounting policy with the Parent company.

Previously the gains or losses on remeasurement was recognised within other income/ expenses. The current adopted policy is now to recognise such gains or losses within Finance income / expense.

## Notes to the financial statements (continued)

### 1 Statement of accounting policies (continued)

#### *Cash flow hedges*

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the hedging reserve. Any ineffective portion of the hedge is recognised immediately in the income statement.

The effectiveness of all hedges is assessed on an ongoing basis throughout the financial period for which the hedge is designated.

#### *Property, plant and equipment*

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

Buildings	4% per annum
Plant and equipment, fixtures and fittings	15%-33% per annum

Depreciation rates, useful lives and residual values are reviewed at each reporting date.

#### *Inventories*

Inventories 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 inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity. Net realisable value is determined by deducting attributable selling costs from the expected sales price.

#### *Cash and cash equivalents*

Cash and cash equivalents comprise cash balances, call deposits and amounts held on deposit with MAN SE. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the statement of cash flows.

#### *Employee benefits*

##### *Defined contribution plans*

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.



## Notes to the financial statements (continued)

### 1 Statement of accounting policies (continued)

#### *Defined benefit plans*

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) is deducted. The liability discount rate is the yield at the balance sheet date on AA credit rated bonds that have maturity dates approximating to the terms of the Company's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

Actuarial gains and losses are recognised in the year they occur directly through equity through the statement of comprehensive income.

Where the calculation results in a benefit to the Company, the asset recognised is limited to the present value of any future refunds from the plan or reductions in future contributions to the plan.

The increase in the present value of the liabilities of the Company's defined benefit schemes expected to arise from employee service in the year is charged to administrative expenses within operating profit. The expected return on schemes' assets and the interest cost of the schemes' liabilities are included in finance income and expenses.

#### *Investments in subsidiaries*

Investments in subsidiaries are accounted for at cost less impairment.

#### *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 the 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 end of the reporting period, 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. If the effect is material, provisions are determined by discounting the expected, risk adjusted, future cash flows at a pre-tax risk-free rate.

#### *Guarantees*

Management assess at each year end what they consider to be the contingent liability in respect of these guarantees and ensure this is reflected in the financial statements.

## Notes to the financial statements (continued)

### 1 Statement of accounting policies (continued)

#### *Taxation*

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

Current tax is the expected tax payable on the taxable income 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 asset can be utilised.

#### *Share capital*

Ordinary shares are classified as equity.

#### *Trade and other receivables*

Trade receivables are amounts due from customers for goods 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 fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

#### *Trade and other 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 fair value and subsequently measured at amortised cost using the effective interest method.

#### *Dividend distribution*

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.

## Notes to the financial statements (continued)

### 2 Revenue

The significant categories of revenue recognised during the year are as follows:

	2014 £000	2013 £000
Sale of goods	26,524	32,651
Rendering of services	32,022	26,484
Commission income not of UK origin (from other group companies)	2,267	3,977
	<u>60,813</u>	<u>63,112</u>

### 3 Other income

	2014 £000	2013 £000
Gain on disposal of property, plant and equipment	3,714	11
Sundry other operating income	196	973
Net loss on financial instruments	-	(186)
	<u>3,910</u>	<u>798</u>

### 4 Expenses by nature and auditors' remuneration

Included within operating profit are the following:	2014 £000	2013 £000
Restructuring costs expensed as incurred – included in other operating expenses	-	12
Employee benefit expense (note 5)	12,262	12,125
Property, plant and equipment:		
Depreciation of owned assets (note 9)	568	647
Operating lease payments (note 22)	1,141	1,203
	<u>13,971</u>	<u>13,987</u>

#### *Auditors' remuneration:*

During the year the Company obtained the following services from their auditors and its associates:

	2014 £000	2013 £000
Fees payable to Company's auditors for the audit of the financial statements	25	33
Fees payable to the Company's auditors and its associates for overseas branch activities	25	53
Tax Services	37	10
	<u>87</u>	<u>96</u>

## Notes to the financial statements (continued)

### 5 Staff numbers and costs

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

	Number of employees	
	2014	2013
Manufacturing and engineering	157	154
Commercial	61	64
Management and administration	31	31
	<u>249</u>	<u>249</u>

The aggregate payroll costs of these persons were as follows:

	2014 £000	2013 £000
Wages and salaries	9,210	9,054
Social security costs	1,014	1,003
Other pension costs (note 17)	2,038	2,068
	<u>12,262</u>	<u>12,125</u>

### 6 Directors' emoluments

	2014 £000	2013 £000
Aggregate emoluments (including benefits in kind)	333	327
Company contributions to defined contribution plans	16	16
	<u>349</u>	<u>343</u>

The aggregate of emoluments of the highest paid director was £182,000 (2013: £178,000). He is a member of a defined benefit scheme, under which his accrued pension at 31 December 2014 was £25,826 (2013: £23,633).

	Number of directors	
	2014	2013
Retirement benefits are accruing to the following number of directors under:		
Defined benefit schemes	1	1
Defined contribution schemes	1	1
	<u>1</u>	<u>1</u>

## Notes to the financial statements (continued)

### 7 Net finance costs

	2014 £000	2013 £000
Expected return on defined benefit pension plan assets (note 17)	4,074	3,666
Interest income	53	75
<b>Finance income</b>	<b>4,127</b>	<b>3,741</b>
Interest on defined benefit pension plan obligation (note 17)	(5,387)	(4,861)
Net loss on financial instruments	(227)	-
Interest expense	(5)	(5)
<b>Finance expense</b>	<b>(5,619)</b>	<b>(4,866)</b>
<b>Net finance costs</b>	<b>(1,492)</b>	<b>(1,125)</b>

### 8 Income tax expense

	2014 £000	2013 £000
<b>Current tax:</b>		
Current tax on profits for the year	1,960	3,195
Adjustments in respect of prior years	(46)	120
<b>Total current tax</b>	<b>1,914</b>	<b>3,315</b>
<b>Deferred tax:</b>		
Origination and reversal of temporary differences	57	35
Movement in tax losses	30	17
Adjustment in respect of pension scheme liability	347	497
Impact of change in tax rate	(36)	34
Adjustments in respect of prior years	-	15
<b>Total deferred tax (note 12)</b>	<b>398</b>	<b>598</b>
<b>Income tax expense</b>	<b>2,312</b>	<b>3,913</b>

## Notes to the financial statements (continued)

### 8 Income tax expense (continued)

The tax assessed for the year is lower (2013: higher) than the standard effective rate of corporation tax in the UK for the year ended 31 December 2014 of 21.5% (2013: 23.25%). The differences are explained below:

	2014 £000	2013 £000
<b>Profit before income tax</b>	<b>15,115</b>	<b>16,048</b>
Tax calculated at the standard effective rate of corporation tax in the UK of 21.5% (2013: 23.25%)	<b>3,250</b>	<b>3,731</b>
Non-deductible expenses	<b>26</b>	<b>24</b>
Non taxable income	<b>(796)</b>	<b>-</b>
Other timing differences	<b>(86)</b>	<b>(11)</b>
Adjustments in respect of prior years	<b>(46)</b>	<b>135</b>
Re-measurement of deferred tax – change in tax rate	<b>(36)</b>	<b>34</b>
<b>Tax charge</b>	<b>2,312</b>	<b>3,913</b>

#### Factors affecting current and future tax charges

The standard rate of corporation tax in the UK changed from 23% to 21% with effect from 1 April 2014. Accordingly, the company's profit chargeable to corporation tax for the prior accounting period was taxed at the effective rate of 23.25% and at 21.5% in the current accounting year.

The change in the corporation tax rate from 23% to 21% (effective from 1 April 2014), and a further reduction to 20% (effective from 1 April 2015) was enacted in the Finance Act 2014 and, as a result, UK deferred tax balances have been re-measured to the enacted rate of 20%. The impact of this was not material.

## Notes to the financial statements (continued)

### 9 Property, plant and equipment

	Land and buildings £000	Plant and equipment £000	Fixtures and fittings £000	Assets under construction £000	Total £000
<b>Cost</b>					
At 1 January 2013	8,249	22,020	25,271	59	55,599
Additions	-	2	36	63	101
Disposals	-	(63)	-	-	(63)
Book transfers	(121)	136	49	(64)	-
<b>At 31 December 2013</b>	<b>8,128</b>	<b>22,095</b>	<b>25,356</b>	<b>58</b>	<b>55,637</b>
Additions	-	3	90	93	186
Disposals	(2,606)	(48)	-	-	(2,654)
Book transfers	-	25	42	(67)	-
<b>At 31 December 2014</b>	<b>5,522</b>	<b>22,075</b>	<b>25,488</b>	<b>84</b>	<b>53,169</b>
<b>Accumulated depreciation</b>					
At 1 January 2013	2,339	20,049	24,791	-	47,179
Charge for the year	92	321	234	-	647
Disposals	-	(63)	-	-	(63)
<b>At 31 December 2013</b>	<b>2,431</b>	<b>20,307</b>	<b>25,025</b>	<b>-</b>	<b>47,763</b>
Charge for the year	92	292	184	-	568
Disposals	-	(48)	-	-	(48)
<b>At 31 December 2014</b>	<b>2,523</b>	<b>20,551</b>	<b>25,209</b>	<b>-</b>	<b>48,283</b>
<b>Net book value</b>					
At 1 January 2013	5,910	1,971	480	59	8,420
<b>At 31 December 2013</b>	<b>5,697</b>	<b>1,788</b>	<b>331</b>	<b>58</b>	<b>7,874</b>
<b>At 31 December 2014</b>	<b>2,999</b>	<b>1,524</b>	<b>279</b>	<b>84</b>	<b>4,886</b>

Depreciation of property, plant and equipment assets is charged to administrative expenses in the income statement.

## Notes to the financial statements (continued)

### 10 Investments in subsidiaries

Name	Country of incorporation	% of ordinary shares held by parent	Principle activities
Mirrlees Blackstone Ltd	England and Wales	100	Non trading
Ruston & Hornsby Limited	England and Wales	100	Non trading
Fifty Two Ltd	England and Wales	100	Non trading
MAN Diesel Services Ltd	England and Wales	100	Non trading
Paxman Diesels Ltd	England and Wales	100	Non trading
Ruston Diesels Ltd	England and Wales	100	Non trading
MAN Diesel Electrical Services Ltd	England and Wales	100	Non trading
MAN Turbo (UK) Limited	England and Wales	100	Non trading
Railway Mine & Plantation Equipment Limited	England and Wales	100	Non trading
MAN Diesel & Turbo Engine Services Ltd (formerly MAN International Limited)	England and Wales	100	Non trading
MAN Power Engineering Limited	England and Wales	100	Non trading
		<b>2014</b>	<b>2013</b>
		<b>£000</b>	<b>£000</b>
At 1 January		2	2
At 31 December		2	2

Investments in group undertakings are recorded at cost, which is the fair value of the consideration paid.

### 11 Other financial assets / liabilities

	<b>2014</b>	<b>2013</b>
	<b>£000</b>	<b>£000</b>
<b>Current</b>		
Financial assets held for hedging	120	-
	120	-
<b>Current</b>		
Financial liabilities held for hedging	499	152
	499	152



## Notes to the financial statements (continued)

### 11 Other financial assets / liabilities (continued)

#### Forward foreign exchange contracts

The notional principal amounts of outstanding forward foreign exchange sales contracts at 31 December 2014 were £10,061,000 (2013: £4,241,000) and forward foreign exchange purchase contracts at 31 December 2014 were £8,035,000 (2013: £10,827,000).

The other financial assets and liabilities disclosed on the face of the balance sheet represent market values of derivative financial instruments and comprise of the following:

	Assets		Liabilities	
	2014 £000	2013 £000	2014 £000	2013 £000
Foreign currency forward contracts	120	-	499	152

These derivative contracts are stated at fair value directly through the income statement and are designated as such upon initial recognition.

The fair value of the derivative contracts are obtained directly from MAN SE's treasury function. They are based on an estimate of the residual option premiums or represent the difference between the contractual forward price and the current forward price discounted over the remaining term of the contract. The contracts have maturity dates that expire up to 2018 whose main purpose is to hedge the Company's foreign currency exposure at the balance sheet date, thereby managing the Company's operations and financial resources against adverse currency exchange movements.

### 12 Deferred tax assets

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	2014 £000	2013 £000
<b>Deferred tax assets:</b>		
- Deferred tax asset to be recovered after more than 12 months	4,710	6,215
<b>Deferred tax assets</b>	<b>4,710</b>	<b>6,215</b>

## Notes to the financial statements (continued)

### 12 Deferred tax assets (continued)

Deferred tax assets are attributable to the following:

	Assets		Total	
	2014 £000	2013 £000	2014 £000	2013 £000
Property, plant and equipment	158	191	158	191
Employee benefits	4,402	5,856	4,402	5,856
Tax value of loss carry-forwards	150	168	150	168
	<hr/>	<hr/>	<hr/>	<hr/>
Net tax assets	4,710	6,215	4,710	6,215
	<hr/>	<hr/>	<hr/>	<hr/>

The deferred tax asset is recognised on the basis that it is more likely than not that there will be future taxable profits to offset against these assets.

As at 31 December 2014 there are unrecognised non-trading tax losses of £5,000,000 (2013: £5,000,000) which do not have an expiry date.

The movement in deferred tax during the year is as follows:

	1 January 2014 £000	Recognised in income £000	Recognised in equity £000	31 December 2014 £000
Property, plant and equipment	191	(33)	-	158
Employee benefits	5,856	(347)	(1,107)	4,402
Tax value of loss carry-forwards utilised	168	(18)	-	150
	<hr/>	<hr/>	<hr/>	<hr/>
	6,215	(398)	(1,107)	4,710
	<hr/>	<hr/>	<hr/>	<hr/>

The movement in deferred tax during the prior year is as follows:

	1 January 2013 £000	Recognised in income £000	Recognised in equity £000	31 December 2013 £000
Property, plant and equipment	259	(68)	-	191
Employee benefits	5,899	(497)	454	5,856
Tax value of loss carry-forwards utilised	201	(33)	-	168
	<hr/>	<hr/>	<hr/>	<hr/>
	6,359	(598)	454	6,215
	<hr/>	<hr/>	<hr/>	<hr/>

## Notes to the financial statements (continued)

### 13 Inventories

	2014 £000	2013 £000
Work in progress	2,940	1,106
Finished goods	25,022	24,659
	<u>27,962</u>	<u>25,765</u>

The cost of inventories recognised as an expense and included in 'cost of sales' amounted to £28,953,000 (2013: £27,519,000). During the year the Company has written down £747,000 (2013: £30,000 write back) of inventories.

### 14 Trade and other receivables

	2014 £000	2013 £000
Trade receivables	11,403	10,490
Less: provision for impairment of trade receivables	(859)	(927)
Trade receivables - net	<u>10,544</u>	<u>9,563</u>
Amounts owed by group undertakings	3,043	4,253
Prepayments	22	30
Other receivables	5,213	111
	<u>18,822</u>	<u>13,957</u>

There are no amounts included in trade and other receivables greater than 12 months old (2013: £nil).

The amounts due but not impaired relate to a number of independent customers to whom there is no recent history of default.

At 31 December 2014, trade receivables include retentions of £101,000 (2013: £105,000) relating to construction contracts in progress.

Trade and other receivables denominated in currencies other than GBP comprise £508,000 (2013: £781,000) of trade receivables denominated in USD, £3,795,000 (2013: £3,002,000) of trade receivables denominated in EUR, £286,000 (2013: £230,000) of trade receivables denominated in DKK, £Nil (2013: £5,000) of trade receivables denominated in ZAR, £21,000 (2013: £Nil) of trade receivables denominated in CAD and £212,000 (2013: £1,027,000) of trade receivables denominated in CHF.

The aging of trade receivables at the balance sheet date was:

	Gross 2014 £000	Impairment 2014 £000	Net 2014 £000	Gross 2013 £000	Impairment 2013 £000	Net 2013 £000
Not past due	8,373	-	8,373	6,853	-	6,853
Past due 0-30 days	1,445	-	1,445	1,103	-	1,103
Past due 31-120 days	621	-	621	740	-	740
More than 120 days	964	(859)	105	1,794	(927)	867
	<u>11,403</u>	<u>(859)</u>	<u>10,544</u>	<u>10,490</u>	<u>(927)</u>	<u>9,563</u>

## Notes to the financial statements (continued)

### 14 Trade and other receivables (continued)

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2014 £000	2013 £000
Balance at 1 January	927	756
Impairment provision utilised	(122)	(26)
Impairment provision charge	135	280
Impairment provision released	(81)	(83)
	<hr/>	<hr/>
Balance at 31 December	859	927
	<hr/>	<hr/>

Management review trade receivables on an ongoing basis to determine whether the need for any specific impairment has become apparent. The Company does not hold any collateral against the above trade receivables (2013: £nil).

### 15 Cash and cash equivalents

	2014 £000	2013 £000
Amounts held on deposit with Parent Company MAN SE	21,064	19,999
Cash and cash equivalents	79	93
	<hr/>	<hr/>
	21,143	20,092
	<hr/>	<hr/>

Cash and cash equivalents include amounts held on deposit with the Parent Company MAN SE. In the judgement of the directors, these balances meet the definition of cash and cash equivalents under IFRS as it is their view that:

- Balances are held for the purpose of meeting short-term cash commitments;
- Balances are readily convertible into known amounts of cash; and
- Balances are subject to insignificant risk of change in value.

Furthermore, interest is receivable in relation to these amounts held on deposit with the Parent Company MAN SE.

Cash and cash equivalents denominated in currencies other than GBP comprise approximately £63,000 (2013: £150,000) of cash equivalents denominated in USD, £110,000 (2013: £254,000) of cash equivalents denominated in EUR, (£Nil (2013: £18,000) of cash equivalents denominated in SEK, £49,000 (2013: £194,000) of cash equivalents denominated in CHF, £128,000 (2013: £117,000) of cash equivalents denominated in DKK and £13,000 (2013: £33,000) of cash equivalents denominated in RON.

## Notes to the financial statements (continued)

### 16 Trade and other payables

	2014 £000	2013 £000
Trade payables	7,579	3,710
Amounts owed to group undertakings	937	876
Payments received on account	2,033	1,159
Accrued expenses	1,085	1,003
Social security and other taxes	2,474	441
	<u>14,108</u>	<u>7,189</u>

Trade and other payables denominated in currencies other than GBP comprise approximately £15,000 (2013: £10,000) of trade payables denominated in USD, £1,116,000 (2013: £870,000) of trade payables denominated in EUR, £40,000 (2013: £41,000) of trade payables denominated in AUD, £17,000 (2013: £83,000) of trade payables denominated in CHF.

There are no amounts included in trade and other payables greater than 12 months old (2013: £nil).

### 17 Employee benefits

#### Pension plans

The Company operates two defined benefit schemes in the UK; one forming part of a merged scheme called the MAN UK Group Pension Scheme and another called the MAN Turbo (UK) Retirement Benefit Plan.

Full member by member calculations as at 31 March 2010 were updated to 31 December 2014 by an independent qualified actuary. Revised IAS19 has been adopted.

The information disclosed below is in respect of the whole of the plans for which the Company is either the sponsoring employer or has been allocated a share of cost under an agreed group policy throughout the years shown.

#### The following relates to the Company proportion of the MAN UK Group Pension Scheme:

	2014 £000	2013 £000
Present value of funded obligations	(115,732)	(111,621)
Fair value of plan assets	93,683	84,060
	<u>(22,049)</u>	<u>(27,561)</u>
Liability recognised in the statement of financial position	<u>(22,049)</u>	<u>(27,561)</u>

## Notes to the financial statements (continued)

### 17 Employee benefits (continued)

#### Pension plans (continued)

##### Sensitivity Analysis

The Company Actuary assessed the scheme liabilities and as part of this completed sensitivity analysis on various events and the material impact that these would have on the Company.

The following changes to actuarial assumptions would lead to an increase / (decrease) in the defined benefit obligation:

##### DBO Sensitivity – Discount Rate:

	2014 £000	2013 £000
Sensitivity of DBO active members – Discount Rate + 0.5% points	(1,378)	(1,868)
Sensitivity of DBO deferred members – Discount Rate + 0.5% points	(5,004)	(5,340)
Sensitivity of DBO Pensioners – Discount Rate + 0.5% points	(3,302)	(2,866)
	<hr/>	<hr/>
<b>Total Sensitivity DBO – Discount Rate + 0.5% points</b>	<b>(9,684)</b>	<b>(10,074)</b>
	<hr/>	<hr/>

	2014 £000	2013 £000
Sensitivity of DBO active members – Discount Rate - 0.5% points	1,569	2,098
Sensitivity of DBO deferred members – Discount Rate - 0.5% points	5,784	6,116
Sensitivity of DBO Pensioners – Discount Rate - 0.5% points	3,634	3,055
	<hr/>	<hr/>
<b>Total Sensitivity DBO – Discount Rate – 0.5% Points</b>	<b>10,987</b>	<b>11,269</b>
	<hr/>	<hr/>

##### DBO Sensitivity – other assumptions :

	2014 £000	2013 £000
Sensitivity of DBO – Pension Increase + 0.5% points	9,179	9,521
Sensitivity of DBO – Pension Increase - 0.5% points	(8,385)	(9,167)
Sensitivity of DBO – Salary Increase + 0.5% points	584	874
Sensitivity of DBO – Salary Increase - 0.5% points	(564)	(833)
Sensitivity of DBO – Life expectancy + 1 Year	3,657	3,349

## Notes to the financial statements (continued)

### 17 Employee benefits (continued)

#### Pension plans (continued)

The movement in the defined benefit obligation over the year is as follows:

	2014 £000	2013 £000
At 1 January	111,621	102,840
Current service cost	450	629
Interest cost	4,832	4,348
Actuarial losses	2,181	7,165
Contributions by members	130	129
Benefits paid	(3,482)	(3,490)
	<hr/>	<hr/>
At 31 December	115,732	111,621
	<hr/>	<hr/>

The movements in the fair value of plan assets over the year are as follows:

	2014 £000	2013 £000
At 1 January	84,060	77,645
Expected return on plan assets	3,538	3,179
Actuarial gains	5,458	2,621
Contributions by employer	3,979	3,976
Contributions by members	130	129
Benefits paid	(3,482)	(3,490)
	<hr/>	<hr/>
At 31 December	93,683	84,060
	<hr/>	<hr/>

The amounts recognised in the income statement are as follows:

	2014 £000	2013 £000
Current service cost	450	629
Interest cost	4,832	4,348
Expected return on plan assets	(3,538)	(3,179)
	<hr/>	<hr/>
Total	1,744	1,798
	<hr/>	<hr/>

The expense is recognised in the following line items in the income statement:

	2014 £000	2013 £000
Administrative expenses	450	629
Finance expense	4,832	4,348
Finance income	(3,538)	(3,179)
	<hr/>	<hr/>
	1,744	1,798
	<hr/>	<hr/>

Cumulative actuarial losses reported in the statement of comprehensive income since 1 January 2006, the transition date to IFRS, are £27,711,000 (2013: £30,988,000).

## Notes to the financial statements (continued)

### 17 Employee benefits (continued)

#### Pension plans (continued)

The fair value of the plan assets and the return on those assets were as follows:

	2014		2013	
	Fair value		Fair value	
	£000		£000	
Equities	35,104	37%	30,141	36%
Fixed interest bonds	37,111	40%	35,022	42%
Cash	632	1%	814	1%
Other (Index-linked gilts)	20,836	22%	18,083	21%
	<b>93,683</b>	100%	<b>84,060</b>	100%
Actual return on plan assets	<b>8,996</b>		<b>5,800</b>	

The expected rates of return on plan assets are derived from the yield on the FTSE 10 year gilts index using a methodology consistent with previous years.

Where relevant indices are not available, as in the case of equities, the return has been determined by using an equity risk premium of 3% above government bond yields at the balance sheet date.

The overall expected rate of return is calculated by weighting the individual rates in accordance with the anticipated balance in the plan's investment portfolio.

Principal actuarial assumptions (expressed as weighted averages) at 31 December were as follows:

	2014	2013
	%	%
Discount rate	3.70	4.40
Future salary increases	3.35	3.65
Pensions growth	3.00	3.25
Inflation rate	3.10	3.40

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on SAP 2 tables, with CMI 2013 1.25% improvements. The assumptions equate to an average life expectancy of 22 years for a male member retiring now aged 65 and 24 years for a male member aged 45 retiring in the future at the age of 65.



## Notes to the financial statements (continued)

### 17 Employee benefits (continued)

#### Pension plans (continued)

The history of the plans for the current and prior years is as follows:

	2014 £000	2013 £000	2012 £000	2011 £000	2010 £000
Present value of the defined benefit obligation	(115,732)	(111,621)	(102,840)	(92,311)	(83,731)
Fair value of plan assets	93,683	84,060	77,645	69,968	66,020
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Deficit in the plan	(22,049)	(27,561)	(25,195)	(22,343)	(17,711)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

The Company expects to contribute approximately £3,994,000 (2013:£3,992,000) to this particular defined benefit plan in the next financial year.

The following relates to the Company proportion of the MAN Turbo (UK) Retirement Benefit Plan scheme:

	2014 £000	2013 £000
Present value of funded defined benefit obligations	(13,123)	(12,733)
Fair value of plan assets	13,165	12,406
	<u>          </u>	<u>          </u>
Surplus/(Deficit) of funded plans	42	(327)
	<u>          </u>	<u>          </u>
Asset/(Liability) recognised in the balance sheet	42	(327)
	<u>          </u>	<u>          </u>

## Notes to the financial statements (continued)

### 17 Employee benefits (continued)

#### Pension plans (continued)

##### Sensitivity Analysis

The Company Actuary assessed the Turbo scheme liabilities and as part of this completed sensitivity analysis on various events and the material impact that these would have on the company.

The following changes to actuarial assumptions would lead to an increase / (decrease) in the defined benefit obligation:

##### DBO Sensitivity – Discount Rate:

	2014 £000	2013 £000
Sensitivity of DBO active members – Discount Rate + 0.5% points	(63)	(245)
Sensitivity of DBO deferred members – Discount Rate + 0.5% points	(749)	(625)
Sensitivity of DBO Pensioners – Discount Rate + 0.5% points	(402)	(317)
<b>Total Sensitivity DBO – Discount Rate + 0.5% points</b>	<b>(1,214)</b>	<b>(1,187)</b>
	2014 £000	2013 £000
Sensitivity of DBO active members – Discount Rate - 0.5% points	72	278
Sensitivity of DBO deferred members – Discount Rate - 0.5% points	869	721
Sensitivity of DBO Pensioners – Discount Rate - 0.5% points	447	338
<b>Total Sensitivity DBO – Discount Rate – 0.5% Points</b>	<b>1,388</b>	<b>1,337</b>

##### DBO Sensitivity – other assumptions :

	2014 £000	2013 £000
Sensitivity of DBO – Pension Increase + 0.5% points	793	732
Sensitivity of DBO – Pension Increase - 0.5% points	(739)	(724)
Sensitivity of DBO – Salary Increase - 0.5% points	22	107
Sensitivity of DBO – Salary Increase - 0.5% points	(24)	(102)
Sensitivity of DBO – Life expectancy - + 1 Year	469	443

## Notes to the financial statements (continued)

### 17 Employee benefits (continued)

#### Pension plans (continued)

The movement in the present value of defined benefit obligation over the year is as follows:

	2014 £000	2013 £000
At 1 January	12,733	12,031
Current service cost	44	49
Interest cost	555	513
Actuarial losses	11	356
Contributions by members	-	-
Benefits paid	(220)	(216)
	<hr/>	<hr/>
At 31 December	13,123	12,733
	<hr/>	<hr/>

The movement in the fair value of plan assets of the year is as follows:

	2014 £000	2013 £000
At 1 January	12,406	11,579
Expected return on plan assets	536	487
Actuarial gains	384	499
Contributions by employer	59	57
Contributions by members	-	-
Benefits paid	(220)	(216)
	<hr/>	<hr/>
At 31 December	13,165	12,406
	<hr/>	<hr/>

The amounts recognised in the income statement are as follows:

	2014 £000	2013 £000
Current service cost	44	49
Interest on defined benefit pension plan obligation	555	513
Expected return on defined benefit pension plan assets	(536)	(487)
	<hr/>	<hr/>
Total	63	75
	<hr/>	<hr/>

The expense is recognised in the following line items in the income statement:

	2014 £000	2013 £000
Administrative expenses	44	49
Finance expense	555	513
Finance income	(536)	(487)
	<hr/>	<hr/>
	63	75
	<hr/>	<hr/>

Cumulative actuarial gains reported in the statement of comprehensive income since 1 June 2010, the merger date, are £450,000 (2013: gain of £77,000).

## Notes to the financial statements (continued)

### 17 Employee benefits (continued)

#### Pension plans (continued)

The fair value of the plan assets and the return on those assets were as follows:

	2014 Fair value £000		2013 Fair value £000	
Equities	-		5,014	40%
Fixed interest bonds	-		5,308	43%
Property	-		939	8%
Cash	-		481	4%
Other (Index-linked gilts)	13,165	100%	664	5%
	<u>13,165</u>	100%	<u>12,406</u>	100%
Actual return on plan assets	<u>920</u>		<u>986</u>	

The expected rates of return on plan assets are derived from the yield on the FTSE 10 year gilts index using a methodology consistent with previous years.

Where relevant indices are not available, as in the case of equities, the return has been determined by using an equity risk premium of 3% above government bond yields at the balance sheet date.

The overall expected rate of return is calculated by weighting the individual rates in accordance with the anticipated balance in the plan's investment portfolio.

Principal actuarial assumptions (expressed as weighted averages) at 31 December were as follows:

	2014 %	2013 %
Discount rate	3.70	4.40
Future salary increases	3.35	3.65
Pensions growth	3.00	3.25
Inflation rate	3.10	3.40

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on SAP 2 tables, with CMI 20131.25% improvements. The assumptions equate to an average life expectancy of 22 years for a male member retiring now aged 65 and 24 years for a male member aged 45 retiring in the future at the age of 65.

The history of the plans for the current and prior years is as follows:

	2014 £000	2013 £000	2012 £000	2011 £000	2010 £000
Present value of the defined benefit obligation	(13,123)	(12,733)	(12,031)	(10,493)	(9,569)
Fair value of plan assets	13,165	12,406	11,579	10,695	10,166
Surplus/(deficit) in the plan	<u>42</u>	<u>(327)</u>	<u>(452)</u>	<u>202</u>	<u>597</u>

The Company expects to contribute approximately £129,000 (2013: £59,000) to this particular defined benefit plan in the next financial year.

## Notes to the financial statements (continued)

### 17 Employee benefits (continued)

#### Defined contribution plans

The Company also operates a defined contribution pension plan.

The total combined expense relating to this plan in the current year was £231,047 (2013: £194,651).

### 18 Provisions for other liabilities and charges

	Warranty and maintenance £000	Contract losses and claims £000	Restructuring and reorganisation £000	Total £000
At 1 January 2013	1,414	1,580	58	3,052
Provisions made during the year	1,075	537	-	1,612
Provisions used during the year	(553)	(259)	(58)	(870)
Provisions reversed during the year	(728)	-	-	(728)
At 31 December 2013	1,208	1,858	-	3,066
Non-current	78	-	-	78
Current	1,130	1,858	-	2,988
As at 31 December 2013	1,208	1,858	-	3,066
Provisions made during the year	1,040	598	-	1,638
Provisions used during the year	(499)	(783)	-	(1282)
Provisions reversed during the year	(455)	(421)	-	(876)
At 31 December 2014	1,294	1,252	-	2,546
Non-current	64	-	-	64
Current	1,230	1,252	-	2,482
At 31 December 2014	1,294	1,252	-	2,546

#### Warranty and maintenance

The Company recognises provisions for warranty and maintenance costs based upon known identifiable contractual obligations to its customers. Of the total warranty and maintenance provision £1,230,000 (2013: £1,130,000) is expected to be utilised in 2015.

#### Contract losses and claims

The amounts represent legal claims brought against the Company by customers. The balance at 31 December 2014 is expected to be utilised in 2015 and in Managements' opinion, after seeking appropriate legal advice, the outcome of these legal claims will not give rise to any significant loss beyond the amounts already provided.

## Notes to the financial statements (continued)

### 19 Share capital

	2014 £000	2014 £000
<i>Issued and fully paid</i>		
11,412,000 (2013: 11,412,000) ordinary shares of £1 each	<b>11,412</b>	11,412

### 20 Related party transactions

The directors consider the following to be related parties:

- MAN Diesel & Turbo SE, MAN SE and Volkswagen AG, its parent and ultimate parent undertakings respectively, together the “Parent Companies”
- Fellow Subsidiaries of MAN Diesel & Turbo SE, MAN SE and Volkswagen AG
- Key management personnel

The directors consider the key management personnel to comprise of the Board of Directors. Details of compensation of the directors are disclosed in note 6.

The Company had the following transactions in the year with related parties:

	2014		2013	
	Parent Companies £000	Fellow Subsidiaries £000	Parent Companies £000	Fellow Subsidiaries £000
Sale of goods and services	106	11,303	665	14,218
Purchase of goods and services	2,443	4,540	3,104	4,595
Commission income	579	1,688	450	3,527
Intercompany recharges	692	-	697	-
Intercompany expenses	(474)	-	(495)	-
Interest income	53	-	73	-
Interest expense	(5)	-	(5)	-

## Notes to the financial statements (continued)

### 20 Related party transactions (continued)

The Company had the following balances outstanding at the year end with its Parent Companies and Fellow Subsidiaries:

	2014 £000	2013 £000
Receivables due from Parent Companies	332	84
Payables due to Parent Companies	(298)	(216)
Receivables due from Fellow Subsidiaries	2,711	4,169
Payables due to Fellow Subsidiaries	(639)	(660)
Cash and cash equivalents including amounts held on deposit with MAN SE	21,064	19,999

### 21 Financial instruments

#### *Fair values of financial instruments*

##### *Trade and other receivables*

The fair value of trade and other receivables, excluding construction contract receivables, is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material. The Company is satisfied of that the credit quality of trade and other receivables that are neither past due or impaired.

##### *Trade and other payables*

The fair value of trade and other payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material.

##### *Cash and cash equivalents*

The fair value of cash and cash equivalents is estimated as its carrying amount where the cash is repayable on demand. Where it is not repayable on demand then the fair value is estimated at the present value of future cash flows, discounted at the market rate of interest at the balance sheet date.

#### *Fair values*

The fair values for each class of financial assets and financial liabilities together with their carrying amounts shown in the balance sheet are as follows:

Each classification of financial instruments falls under the category of loans and receivables with the exception of other financial assets and liabilities. These fall under the category of asset/liabilities and fair value through Profit and Loss.

	Carrying amount 2014 £000	Fair value 2014 £000	Carrying amount 2013 £000	Fair value 2013 £000
Other financial assets	120	120	-	-
Trade and other receivables	18,822	18,822	13,957	13,957
Cash and cash equivalents	21,143	21,143	20,092	20,092
<b>Total financial assets</b>	<b>40,085</b>	<b>40,085</b>	<b>34,049</b>	<b>34,049</b>
Trade and other payables	14,108	14,108	7,189	7,189
Other financial liabilities	499	499	152	152
<b>Total financial liabilities</b>	<b>14,607</b>	<b>14,607</b>	<b>7,341</b>	<b>7,341</b>

## Notes to the financial statements (continued)

### 21 Financial instruments (*continued*)

#### *Financial risk factors*

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. The Company uses derivative financial instruments to hedge certain risk exposures.

#### *(a) Market risk*

Market risk is the risk that changes in foreign exchange rates, prices and interest rates will affect the Company's income or the value of its holdings of financial instruments.

#### *Foreign exchange risk*

The Company's exposure to foreign currency risk in terms of cash and cash equivalents, trade receivables and trade payables is detailed within notes 15, 14 and 16 respectively. This is based on the carrying amount for monetary financial instruments except derivatives when it is based on notional amounts.

A 10 percent weakening of USD, EUR, CHF and SEK against the pound sterling at 31 December would have had no significant impact on profit or loss. This calculation assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date.

This analysis also assumes that all other variables, in particular other exchange rates and interest rates, remain constant. The analysis is performed on the same basis for 2014.

The Company is not materially exposed to price or interest rate risk.

#### *(b) Credit risk*

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers.



## Notes to the financial statements (continued)

### 21 Financial instruments (continued)

#### Trade Receivables

The Company is exposed to significant trade receivable credit risk through normal on-going business trade to a wide-ranging global group of customers. This risk is managed as follows:

- aged analysis is performed on trade receivable balances and reviewed on a monthly basis;
- credit ratings are obtained on any new customers and the credit ratings of existing customers are monitored on an on-going basis; and,
- credit limits are set for customers with trigger points and escalation procedures clearly defined.

A table showing the ageing profile totals of trade receivables and the provision for doubtful debts for each ageing band is disclosed in note 14.

#### Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. Therefore, the maximum exposure to credit risk at the balance sheet date was £40,085,000 (2013: £34,049,000).

#### (c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The policy on overall liquidity is to ensure that the Company has sufficient funds to facilitate all on-going operations. As part of the annual budgeting and long term planning process, the Company's cash flow forecast is reviewed and approved by the Board. The cash flow forecast is amended for any material changes identified during the year e.g. material acquisitions and disposals.

Where funding requirements are identified from the cash flow forecast, appropriate measures are taken to ensure these requirements can be satisfied based upon the expected timing of the cash flows.

Cash held at 31 December 2014 amounted to £21,143,000 (2013: £20,092,000).

	2014					
	Carrying amount £000	Contractual cash flows £000	1 year or less £000	1 to <2years £000	2 to <5years £000	5 years and over £000
<b>Non-derivative financial liabilities</b>						
Trade and other payables	6,059	6,059	6,059	-	-	-
<b>Derivative financial liabilities</b>						
Forward exchange contracts:						
Outflow	10,061	10,061	5,903	4,158	-	-
Inflow	8,035	8,035	2,784	1,921	3,330	-

## Notes to the financial statements (continued)

### 21 Financial instruments (continued)

	2013					
	Carrying amount £000	Contractual cash flows £000	1 year or less £000	1 to <2years £000	2 to <5years £000	5 years and over £000
Non-derivative financial liabilities						
Trade and other payables	5,589	5,589	5,589	-	-	-
Derivative financial liabilities						
Forward exchange contracts:						
Outflow	4,241	4,241	4,241	-	-	-
Inflow	10,827	10,827	4,584	993	5,250	-

#### (d) Capital management

The Company's objectives when managing capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for the shareholder and benefits for other stakeholders, and
- to provide an adequate return to the shareholder by pricing products and services commensurately with the level of risk.

The Company sets the amount of capital in proportion to the risk. The Company manages the capital structures and makes adjustment to it in light of changes in economic conditions and the risk characteristic of the underlying assets. In assessing the level of capital all components of equity are taken into account. Management of capital however focuses around the ability to generate cash from its operations.

In order to maintain or adjust the capital structure, the Company adjusts the amount of dividends paid to shareholders or sells assets to raise funds. The Company believes it is meeting its objectives for managing capital as funds are available for reinvestment where necessary.

### 22 Operating leases

At the year end the Company had total future aggregated minimum lease payment commitments under non-cancellable operating lease rentals as follows:

	2014 £'000	2013 £'000
Less than one year	978	1,070
Between one and five years	3,408	3,550
More than five years	4,108	4,943
	<u>8,494</u>	<u>9,563</u>

The Company leases land and buildings for its Stockport, Stamford, Teesside and Redhill premises under non-cancellable operating lease agreements. The lease terms are between two and fifteen years and the majority of lease agreements are renewable at the end of the lease period at market rate.

The Company also leases motor vehicles, MFD printers and laptops and PCs. The lease terms for motor vehicles and MFD printers are both four years and three years for laptops and PCs with the majority of lease agreements being renewable at the end of the lease period at market rate.

During the year £1,141,000 was recognised as an expense in the income statement in respect of operating leases (2013: £1,203,000).

## Notes to the financial statements (continued)

### 23 Capital commitments

During the year ended 31 December 2014, the Company entered into a contract to purchase property, plant and equipment for £423,000 (2013: £622,000).

### 24 Contingent liabilities

The Company has a number of guarantees in place with third parties. The contingent liability at the year-end was £224,000 (2013: £261,000).

### 25 Dividends

A dividend of £11,700,000 in respect of the year ended 31 December 2013 was paid in 2014 (2013: £11,400,000). A dividend in respect of the year ended 31 December 2014 of £0.63 per share, amounting to a total dividend of £7,200,000 has been proposed since year end. These financial statements do not reflect this dividend payable.

### 26 Ultimate parent company

The Company is a subsidiary undertaking of Volkswagen AG which is the ultimate parent company and controlling party incorporated in Germany and listed on the Frankfurt Stock Exchange.

The largest group in which the results of the Company are consolidated is that headed by Volkswagen AG. The smallest group in which they are consolidated is that headed by MAN Diesel & Turbo SE, also incorporated in Germany. The consolidated financial statements of these groups are available to the public and may be obtained from Volkswagen AG, Brieffach 1849, D-38436 Wolfsburg.