

Emerson Electric UK Limited

**Annual report and financial
statements**

Registered number 855587

For the year ended 30 September 2018



Contents

Strategic report	1
Directors' report	3
Statement of directors' responsibilities in respect of the Strategic report, Directors' report and the financial statements	4
Independent auditor's report to the members of Emerson Electric UK Limited	5
Statement of comprehensive income	8
Balance sheet	9
Statement of changes in equity	10
Notes	11

Strategic report

Review and principal activities

The principal activities of the company are:

- The sale of electrical equipment and utilities which are marketed or distributed for application predominately in industrial or office environment or for incorporation into a manufactured product
- The sale of consumer appliance and tool products being electrical tools, equipment and utilities which are marketed or distributed for use predominately in a domestic or household environment
- The provision of certain corporate services mainly to the US parent, Emerson Electric Co.

Automation Solutions

Automation Solutions has reported a decrease in turnover of 15%. This decrease is mainly due to less profitable projects in the automotive segment of the business, which represents the largest part of the activity (31% of total sales). Operating profitability decreased 25% compared with prior year.

Commercial and Residential Solutions

The Commercial and Residential Solutions sales were up by 5%. The growth was primarily derived from expansion into new territories and marketing campaigns. Higher sales were more than offset by the impact of unfavourable GBP / USD exchange rate. This resulted in 30% reduction of operating profitability.

Corporate Division

The decrease in turnover on last year of 18% is mainly a reflection of lower management fees

Future outlook

Automation Solutions

Automation Solutions is expecting to benefit from improving economic conditions and industrial end markets, especially automotive and, as a result, higher turnover is forecast for next year.

Commercial and Residential Solutions

The expansion into new territories, marketing focus and new product lines are expected to underpin the current positive trend, as turnover is forecast to improve for next year as well.

Corporate Division

Corporate Division will continue to increase its scope of management services, as and when required.

Principal risks and uncertainties

Risk management is a high priority. Key risks include loss of personnel, low-cost manufacturers and Government policy. Processes have been designed to identify, mitigate and manage such risk. Examples include human resource continuity strategies, cost reduction programmes, a policy of continuous monitoring of UK/EU regulation and legislation and membership in applicable trade organisations. The board are ultimately responsible for risk management.

On 23 June 2016, the UK voted to leave the European Union and on 23rd March 2017, the UK invoked Article 50 of the Treaty and notified the European Council of their intention to withdraw from the European Council.

It remains unclear how Brexit will affect the country's trading relationships, taxation policies, the movement of people and regulatory affairs. This combined with the uncertainty over currency fluctuation and interest rates, are unknown risks for the business. Through the Emerson Brexit Steering Team, the directors are and will continue to monitor the potential impact of Brexit on the company and will develop strategies to manage the impact.

Strategic report *(continued)*

Key performance indicators

Sales at £30.6 million were 3% lower than prior year at £31.4 million, driven mainly by less profitable projects in the automotive segment of the Automation Solutions business and the lower management fees reported by Corporate Division.

Gross margin for 2018 was 28.2%, which is 0.03% less than the 2017 margin of 28.2%. This was due to the lower margins achieved by the Automation Solutions segment.

Return on Invested Capital (as measured by operating profit, excluding exceptional items, as a percentage of closing net assets), was 5.2% in 2018 which is 2.7% less compared to 7.9% in 2017.

By order of the Board



M Fernandez
Director

27 June 2019

Directors' report

The directors present their annual report and financial statements for the year ended 30 September 2018.

Dividends

The directors paid a dividend of £Nil in respect of the year ended 30 September 2018 (2017: £12 million).

Directors

The directors who held office during the year were as follow:

M Fernandez
WT Buckley (resigned 30 June 2018)
B Bundgaard-Antoine
D Shaw
Lynne Beutlich (appointed 20 June 2018)

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 he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

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



M Fernandez
Director

Accurist House
44 Baker Street
London
W1U 7AL

27 June 2019

Statement of directors' responsibilities in respect of the Strategic report, 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 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

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 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 the 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.



KPMG LLP
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH
United Kingdom

Independent auditor's report to the members of Emerson Electric UK Limited

Opinion

We have audited the financial statements of Emerson Electric UK Limited ("the company") for the year ended 30 September 2018 which comprise the Statement of 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 30 September 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; 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.

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.

Independent auditor's report to the members of Emerson Electric UK Limited

(continued)

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.

Directors' responsibilities

As explained more fully in their statement set out on page 4, 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.

Independent auditor's report to the members of Emerson Electric UK Limited
(continued)

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.



Xavier Timmermans, Senior Statutory Auditor
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
KPMG LLP
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

28 Jul 2019

Statement of comprehensive income
for the year ended 30 September 2018

	<i>Note</i>	2018 £000	2017 £000
Turnover	2	30,610	31,425
Cost of sales		(21,970)	(22,565)
Gross profit		8,640	8,860
Distribution costs		(757)	(688)
Administrative expenses:			
Before exceptional credit		(4,912)	(4,663)
Exceptional credit	3	1,302	1,421
		(3,610)	(3,242)
Other net operating (expense)/income		(318)	223
Operating profit		3,955	5,153
(Loss) /profit on sale of fixed assets investments	9	(8)	18
Income from shares in group undertakings		-	11,514
Interest receivable	6	884	778
Interest payable and similar charges	6	-	(21)
Profit before taxation	3	4,831	17,442
Taxation	7	(594)	(902)
Profit for the financial year		4,237	16,540
Total comprehensive income for the financial year		4,237	16,540

The company's results are derived from continuing operations.

The notes on pages 11 to 23 form an integral part of these Financial Statements.

Balance sheet
at 30 September 2018

	<i>Note</i>	2018 £000	£000	2017 £000	£000
Fixed assets					
Tangible assets	8		664		865
Investments	9		13,093		7,430
			<hr/>		<hr/>
			13,757		8,295
Current assets					
Stocks	10	3,149		2,934	
Debtors (including £39,000 (2017: £50,000) due after more than one year)	11	253,314		230,132	
Cash at bank and in hand		4,095		5,351	
		<hr/>		<hr/>	
		260,558		238,417	
Creditors: Amounts falling due within one year	12	(223,116)		(199,750)	
		<hr/>		<hr/>	
Net current assets					
Due within one year			37,403		38,617
Due after more than one year	11		39		50
			<hr/>		<hr/>
			37,442		38,667
Net assets			<hr/>		<hr/>
			51,199		46,962
Capital and reserves					
Called up share capital	14		2,118		2,118
Share premium account			9,237		9,237
Other reserves			4,196		4,196
Profit and loss account			35,648		31,411
			<hr/>		<hr/>
Equity shareholders' funds			51,199		46,962
			<hr/>		<hr/>

These financial statements were approved by the board of directors on 27 June signed on its behalf by:


B Bundgaard-Antoine
Director

Company Registered number 855587

The notes on pages 11 to 23 form an integral part of these financial statements.

Statement of changes in equity
for the year ended 30 September 2018

	Called up Share capital £000	Share Premium account £000	Other reserves £000	Profit and loss account £000	Total equity £000
Balance at 1 October 2016	2,118	9,237	4,196	26,871	42,422
Total comprehensive income for the period	-	-	-	16,540	16,540
Transactions with owners recorded directly in equity:					
Dividends paid	-	-	-	(12,000)	(12,000)
Balance at 30 September 2017	2,118	9,237	4,196	31,411	46,962
Balance at 1 October 2017	2,118	9,237	4,196	31,411	46,962
Total comprehensive income for the period	-	-	-	4,237	4,237
Balance at 30 September 2018	2,118	9,237	4,196	35,648	51,199

The notes on pages 11 to 23 form an integral part of these financial statements.

Notes

(forming part of the financial statements)

1 Accounting policies

Emerson Electric UK Limited (the “Company”) is a company limited by shares and incorporated and domiciled in the UK.

The Company is exempt by virtue of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

These financial statements were prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland (“FRS 102”). The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

The Company’s ultimate parent undertaking, Emerson Electric Co., includes the Company in its consolidated financial statements. The consolidated financial statements of Emerson Electric Co., are available to the public and may be obtained from 8000 West Florissant Avenue, PO Box 4100, St Louis, Missouri 63136, United States of America. In these financial statements, the company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Reconciliation of the number of shares outstanding from the beginning to end of the period;
- Cash Flow Statement and related notes; and
- Key Management Personnel compensation.

As the consolidated financial statements of Emerson Electric Co., include the equivalent disclosures, the Company has also taken the exemptions under FRS 102 available in respect of the following disclosures:

- Certain disclosures required by FRS 102.26 *Share Based Payments*; and,
- The disclosures required by FRS 102.11 *Basic Financial Instruments* and FRS 102.12 *Other Financial Instrument Issues* in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

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 19.

1.1 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 operation. The directors have concluded that as the company’s financial position remains strong and liquid the basis for this preparation remains realistic.

The company reports excess cash, which along with access to borrowing facilities through the Emerson European cash pool structure ensures the company can meet its liabilities as they fall due. The ultimate parent company Emerson Electric Company has confirmed that it will continue to support the company as necessary.

As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Consequently, the directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements.

1.2 Foreign currency

Transactions in foreign currencies are translated to the Company's functional currency 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.

1.3 Basic financial instruments

Trade and other debtors / creditors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

Investments in subsidiaries

These are separate financial statements of the company. Investments in subsidiaries are carried at cost less impairment.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

1.4 Tangible fixed assets

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

Leases in which the Company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases.

The company assesses at each reporting date whether tangible fixed assets (including those leased under a finance lease) are impaired.

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. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives are as follows:

- buildings lower of period of lease and 50 years
- plant and equipment 4 to 12 years
- fixtures and fittings 4 to 12 years

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the company expects to consume an asset's future economic benefits.

1.5 Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost is based on the first-in first-out 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.

Notes (continued)

1 Accounting policies (continued)

1.6 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. Impairment losses are recognised in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

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. 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.

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

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

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 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.

1.7 Employee benefits

Defined contribution plans and other long term employee benefits

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

The company participates in a group hybrid pension scheme (part-defined benefit and part-defined contribution) being The Emerson UK Pension Plan ("the Plan"). The Emerson Electric UK Limited section forms one of the defined benefit sections of the Plan.

The Plan is operated by Emerson Holding Company Limited (the "Principal Company"). The assets of the Plan are administered by a Trustee in a fund independent from those of the company.

As there is no contractual agreement or stated group policy for charging the UK GAAP net defined benefit cost of the plan to participating entities, the net defined benefit cost of the pension plan and the net defined benefit liability are recognized fully by the company which is legally responsible for the plan, which is Emerson Holding Company Limited, another member of the group. The Company then recognizes a cost equal to its contribution payable for the period as if it was a defined contribution scheme. The contributions payable by the participating entities are determined on the funding basis as at the latest triennial valuation of the scheme and are set out within the Schedule of Contributions. The allocation of the cash contribution is determined by the principal employer, Emerson Holding Company Limited.

Notes (continued)

1 Accounting policies (continued)

1.7 Employee benefits (continued)

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.

1.8 Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to customers during the year including management recharges to the ultimate parent undertaking. Turnover is recognized when products have been delivered or services have been rendered and collectability is reasonably assured.

1.9 Expenses

Operating lease

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 unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in profit and loss over the term of the lease as an integral part of the total lease expense.

Interest receivable and Interest payable

Interest payable and similar charges 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).

Other interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

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

1.10 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 timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Notes (continued)

1 Accounting policies (continued)

1.11 Distribution to equity holders

Dividends and other distributions to the company's shareholders are recognised as a liability in the financial statements in the period in which the dividends and other distributions are approved by the company's shareholders. These amounts are recognised in the statement of changes in equity.

2 Turnover

The table below sets out information for each of the company's industry segments and geographic areas of operation:

	Turnover	2018 Profit before interest	Net assets	Turnover	2017 Profit before interest	Net assets
	£000	£000	£000	£000	£000	£000
<i>By activity</i>						
Commercial and Residential Solutions	21,572	1,625	24,586	20,574	2,332	23,207
Automation Solutions	3,600	816	14,067	4,258	1,090	13,388
Corporate Function:						
Management services	5,438	204	12,546	6,593	328	10,367
Exceptional credit (see note 3)	-	1,302	-	-	1,421	-
Dividend income	-	-	-	-	11,514	-
	<u>30,610</u>	<u>3,947</u>	<u>51,199</u>	<u>31,425</u>	<u>16,685</u>	<u>46,962</u>

The 'Commercial and Residential Solutions' segment includes a broad range of tools, storage products and appliance components plumbing tools.

The 'Automation Solutions' segment includes materials joining and precision cleaning, fluid power and control, electrical distribution equipment, and hermetic motors.

The 'Corporate Function' includes investments in subsidiary undertakings, cash and amounts owed by/due to other Emerson group companies.

Notes (continued)

2 Turnover (continued)

	2018 £000	2017 £000
<i>By geographical market</i>		
United Kingdom	19,950	19,954
Continental Europe	3,170	3,333
USA	5,438	6,593
Other	2,052	1,545
	<u>30,610</u>	<u>31,425</u>

3 Profit before taxation

	2018 £000	2017 £000
<i>Profit before taxation is stated after charging:</i>		
Depreciation on tangible fixed assets	307	372
Operating leases		
Land and buildings (net)	740	672
Plant and equipment	211	277
Other assets	215	192
Stock recognised as expense	<u>9,358</u>	<u>9,969</u>
<i>Auditor's remuneration</i>		
Audit of the company's financial statements	<u>48</u>	<u>55</u>

Exceptional administrative credit of £1,302,000 (2017: £1,421,000) relates to the net movements in the provisions against amounts due from fellow group companies.

4 Remuneration of directors

The emoluments, excluding pension contributions, of the directors were £Nil (2017: £Nil).

5 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
Production	-	1
Distribution and marketing	18	17
Services	2	2
Engineering	2	2
Administration	18	18
	<u>40</u>	<u>40</u>

Notes (continued)

5 Staff numbers and costs (continued)

The aggregate payroll cost of these persons was as follows:

	2018 £000	2017 £000
Wages and salaries	2,497	2,369
Social security costs	343	313
Other pension costs	317	289
	<u>3,157</u>	<u>2,971</u>

6 Interest receivable/ (payable and similar charges)

	2018 £000	2017 £000
Bank interest receivable and similar income	884	778
Foreign exchange losses	-	(21)

7 Taxation

(a) Analysis of charge for the year

	2018 £000	£000	2017 £000	£000
<i>UK corporation tax</i>				
Current tax on income for the year	667		916	
Adjustments in respect of prior years	(59)		(9)	
	<u> </u>		<u> </u>	
Total current tax charge		608		907
<i>Deferred tax</i>				
Current year	(14)		(17)	
Adjustments in respect of prior years	-		12	
	<u> </u>		<u> </u>	
		(14)		(5)
		<u> </u>		<u> </u>
Tax charge on profit		594		902

Notes (continued)

7 Taxation (continued)

(b) Factors affecting the tax charge for the current year

The tax charge for the year is lower (2017: lower) than the effective rate of corporation tax in the UK of 19% (2017: 19.5%). The differences are explained below:

	2018 £000	2017 £000
Profit before taxation	4,831	17,442
Current tax at 19% (2017: 19.5%)	918	3,401
Effects of:		
Dividends receivable	-	(2,245)
Expenses not deductible for tax purposes	14	18
Provision for amounts due from group companies	(248)	(277)
Tax rate changes	2	2
Adjustment to tax charge in respect of prior years	(59)	3
Income not taxable	(33)	-
Total tax charge	594	902

(c) Factors that may affect future tax charges

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, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly. The deferred tax asset at 30 September 2018 has been calculated based on these rates.

8 Tangible fixed assets

	Short leasehold land and buildings £000	Plant and machinery £000	Fittings, tools and equipment £000	Total £000
Cost				
At beginning of year	37	243	2,632	2,912
Additions	-	-	106	106
Exchange differences	-	-	(2)	(2)
At end of year	37	243	2,736	3,016
Depreciation				
At beginning of year	37	191	1,819	2,047
Charge for year	-	2	305	307
Exchange differences	-	-	(2)	(2)
At end of year	37	193	2,122	2,352
Net book value				
At 30 September 2018	-	50	614	664
At 30 September 2017	-	52	813	865

Notes (continued)

9 Fixed asset investments

	Shares in group undertakings £000	Loans to group undertakings £000	Total £000
Cost			
At beginning of the year	19,764	2,806	22,570
Additions	5,663	-	5,663
	<hr/>	<hr/>	<hr/>
At end of the year	25,427	2,806	28,233
	<hr/>	<hr/>	<hr/>
Provisions			
At beginning and end of the year	12,334	2,806	15,140
	<hr/>	<hr/>	<hr/>
Net book value			
At 30 September 2018	13,093	-	13,093
	<hr/>	<hr/>	<hr/>
At 30 September 2017	7,430	-	7,430
	<hr/>	<hr/>	<hr/>

During the 2017 financial year, the company made a capital contribution and subsequently sold its minority interest in Emerson Oradea S.R.L. resulting in a profit on disposal of £18,000. During the 2018 financial year, a purchase price adjustment was settled. This resulted in a loss on disposal of £8,000.

In December 2017, the company made a capital contribution of £5,663,000 to Emerson Saudi Arabia LLC.

The Company's subsidiary undertakings are as follows:

Directly held Subsidiary undertakings	Registered office	Country of incorporation	%	Principal activity
Artesyn Hungary Electronikai KFT	9028 Gyor, Pandzsa utca 37. Hungary	Hungary	100	Non-trading
Bray Lectorheat Limited	Accurist House 2nd Floor, 44 Baker Street, London, England, W1U 7AL	United Kingdom	100	Non-trading
Buehler Europe Limited	Accurist House 2nd Floor, 44 Baker Street, London, England, W1U 7AL	United Kingdom	100	Non-trading company
Emerson Egypt LLC	Room No. 8, 20 Adly Street, Cairo, Egypt	Egypt	99	Manufacture and distribution of electrical tools and equipment
Emerson Climate Technologies FZE	PO Box 17034, Jebel Ali, Dubai, UAE	United Arab Emirates	100	Manufacture of and trading in electrical and electronic components and products
Emerson Saudi Arabia LLC	4713 Ibn Alhaitham Street, PO Box 1392, Dhahrah 34464 Saudi Arabia	Saudi Arabia	90	Distribution and support of control systems, valves and other equipment

9 Fixed asset investments (continued)

Indirectly held Subsidiary undertakings	Registered office	Country of incorporation	%	Principal activity
Emerson FZE	PO Box 17034, Jebel Ali, Dubai, UAE	United Arab Emirates	100	Manufacture of and trading in electrical and electronic components and products
Bannerscientific Limited	Accurist House 2nd Floor, 44 Baker Street, London, England, W1U 7AL	United Kingdom	100	Non-trading company
Buehler UK Limited	Accurist House 2nd Floor, 44 Baker Street, London, England, W1U 7AL	United Kingdom	100	Non-trading company
Metaserv Limited	Accurist House 2nd Floor, 44 Baker Street, London, England, W1U 7AL	United Kingdom	100	Non-trading company
Metallurgical Services Laboratories Limited	Accurist House 2nd Floor, 44 Baker Street, London, England, W1U 7AL	United Kingdom	100	Non-trading company
ENPDOR2012A Limited (formerly Emerson Network Power Limited)	Accurist House 2nd Floor, 44 Baker Street, London, England, W1U 7AL	Great Britain	100	Non-trading
Emerson Gabon SARL	366, Rue Alfred Marche Quartier Centre Ville, Libreville, 2164 Gabon	Gabon	100	Manufacture and distribution of electrical tools and equipment
EMRSN Process Management Angola, Lda	Bairro Nova Vida, Rua 2, No. 296, Luanda, Belas Municipality, Angola	Angola	80	Manufacture and distribution of electrical tools and equipment
EMRSN Process Management Morocco Sarl	59, Boulevard Zerktown, 6EME Etage N18, Attn: Boris Martor, Casablanca, Morocco	Morocco	100	Trading of oilfield and natural gas equipment
Liebert Swindon Limited	Accurist House 2nd Floor, 44 Baker Street, London, England, W1U 7AL	United Kingdom	100	Non-trading company

All shareholdings are of ordinary equity share capital. All companies operate principally in their country of incorporation.

10 Stocks

	2018 £000	2017 £000
Finished goods and goods for resale	3,149	2,934

11 Debtors

	2018 £000	2017 £000
Trade debtors	4,360	4,224
Amounts owed by group undertakings	247,309	224,314
Other debtors	480	487
Prepayments and accrued income	1,035	991
Deferred tax (note 13)	130	116
	<u>253,314</u>	<u>230,132</u>

Debtors include amounts owed by group undertakings of £39,000 (2017: £50,000) due after more than one year.

Notes (continued)

12 Creditors: Amounts falling due within one year

	2018 £000	2017 £000
Trade creditors	276	146
Amounts due to group undertakings	218,758	195,395
Corporation tax	155	210
Other taxation and social security	482	594
Other creditors	2,616	2,704
Accruals and deferred income	829	701
	<u>223,116</u>	<u>199,750</u>

13 Deferred taxation

Deferred taxation is recognised in full as set out below:

	Deferred taxation £000
Deferred tax asset at beginning of year	116
Credit to the profit and loss account in the year	14
	<u>130</u>
Deferred tax asset at end of year (note 11)	130

Deferred taxation is provided in full as set out below:

	2018 £000	2017 £000
Difference between depreciation and capital allowances	110	95
Other timing differences	20	21
	<u>130</u>	<u>116</u>

14 Called up share capital

	2018 £000	2017 £000
Authorised:		
Ordinary shares of £1 each	274	274
"A" class ordinary shares of £1 each	1,928	1,928
"B" class ordinary shares of £1 each	298	298
	<u>2,500</u>	<u>2,500</u>
Allotted, called up and fully paid:		
1,820,000 "A" class ordinary shares of £1 each	1,820	1,820
298,000 "B" class ordinary shares of £1 each	298	298
	<u>2,118</u>	<u>2,118</u>

The "A" ordinary shares and "B" ordinary shares are equity shares which rank pari passu.

Notes (continued)

15 Commitments

Gross commitments under non-cancellable operating leases were as follows:

	2018 Land and buildings £000	Other £000	2017 Land and buildings £000	Other £000
Operating leases which expire:				
Within one year	755	139	369	216
In second to fifth years	977	148	2,070	233
Over five years	219	-	219	-
	<u>1,951</u>	<u>287</u>	<u>2,658</u>	<u>449</u>

16 Pension schemes

The company participates in a group hybrid pension scheme (part-defined benefit and part-defined contribution) being The Emerson UK Pension Plan ("the Plan"). The Emerson Electric UK Limited section forms one of the defined benefit sections of the Plan.

Defined benefit section

The Plan is operated by Emerson Holding Company Limited (the "Principal Company"). The assets of the Plan are administered by a Trustee in a fund independent from those of the company. A full actuarial valuation of the Plan (including both the defined benefit and the defined contribution sections of the Plan) was carried out on 31 March 2017. This valuation indicated that the market value of the Plan's assets represented a funding level at 31 March 2017 of 102% of the benefits that had accrued to members.

This was the fourth valuation of the Plan under the scheme specific funding legislation introduced by the Pensions Act 2004. As required by legislation, a Statement of Funding Principles and a new Schedule of Contributions were agreed by the Trustee and the Principal Company and are now in place.

In January 2018, a scheme merger took place between the Plan and the Emerson Valves & Controls UK Defined Benefit Pension Scheme (the "Scheme"). Accordingly, the Schedule of Contributions agreed as part of the 31 March 2017 actuarial valuation made allowance for the adhering of the relevant additional employers associated with the Emerson Valves & Controls UK Defined Benefit Pension Scheme to the Plan. Prior to the merger, the Plan and the Scheme were reported under their respective legal entities, Emerson Holding Company Ltd and Emerson Automation Solutions SSC UK Ltd in line with previous policies. Upon completion of the merger these policies were reviewed and revised such that for FRS 102 disclosure purposes the merged Plan liabilities would be accounted for separately, based on their legacy allocation, by Emerson Holding Company Ltd and Emerson Automation Solutions SSC UK Ltd respectively. The revised policy also details the allocation of Plan assets between Emerson Holding Company Ltd and Emerson Automation Solutions SSC UK Ltd.

The total combined participating employer contributions to the defined benefit sections of the Plan for the year ended 30 September 2018 were £11,500,000 (2017: £3,500,000), all of which related to a contribution paid by the participating employers in March 2018 as required by the Schedule of Contributions.

The minimum cumulative contributions agreed in the Schedule of Contributions are £27,000,000 between 1 February 2018 and 31 March 2020 of which £18,000,000 needs to be paid before 31 March 2019 and £9,000,000 was required to be paid by 31 March 2018. Additionally, annual contributions of £2,500,000 must be paid by each 31 March until 31 March 2023. As of 30 September 2018, £11,500,000 had been contributed leaving a minimum further contribution to be made before 31 March 2023 of £30,500,000 (£11,500,000 of which needs to be paid by 31 March 2019).

As there is no contractual agreement or stated group policy for charging the UK GAAP net defined benefit cost of the plan to participating entities, the defined benefit cost of the pension plan and the net defined benefit liability are recognized by Emerson Holding Company Limited and Emerson Automation Solutions SSC UK Limited, which are other members of the group following the scheme merger. The Company then recognizes a cost equal to its contribution payable for the period as if it was a defined contribution scheme. The contributions payable by the

Notes (continued)

16 Pension schemes (continued)

participating entities are determined on the funding basis as at the latest triennial valuation of the scheme and are set out within the Schedule of Contributions. The allocation of the cash contribution is determined by the principal employer, Emerson Holding Company Limited.

The profit and loss charge in respect of the company's employer contributions to the Plan for the year amounted to £56,000 (2017: £103,000) and there were £nil contributions outstanding at the year-end (2017: £nil).

Defined contribution section

The company's pension costs for the year in respect of the defined contribution section of the Plan amounted to £261,000 (2017: £186,000). The contributions outstanding at the year end amounted to £nil (2017: £nil).

17 Immediate parent company and ultimate parent company

The company's immediate parent undertaking is Emerson Holding Company Limited, which is incorporated in Great Britain and registered in England and Wales.

The company's ultimate holding company and controlling party is Emerson Electric Co., a company incorporated in the United States of America.

Copies of the annual financial statements of the ultimate holding company are available from Emerson Electric Co., 8000 West Florissant Avenue, PO Box 4100, St Louis, Missouri 63136, USA.

18 Accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical judgements in applying the company's accounting policies

At 30 September 2018, the company did not make any critical judgements in applying its accounting policies.

Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Fixed asset investments

The Company reviews the carrying value of fixed asset investments and the associated impairment provision required. The Company calculates the impairment based on the value in use represented by the subsidiary undertaking. See note 9 for the carrying value of the fixed asset investments.