

**HERRENKNECHT INTERNATIONAL
LIMITED**

Report and Financial Statements

31 December 2012



REPORT AND FINANCIAL STATEMENTS 2012

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REPORT AND FINANCIAL STATEMENTS 2012

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

M Herrenknecht
R T Slocombe

SECRETARY

D J Atkinson

REGISTERED OFFICE

Wearfield
Sunderland Enterprise Park
Sunderland
Tyne and Wear
SR5 2TZ

BANKERS

HSBC Bank plc
Sunderland
Tyne and Wear

SOLICITORS

Hay & Kilner
Merchant House
30 Cloth Market
Newcastle upon Tyne
NE1 1EE

AUDITOR

Deloitte LLP
Chartered Accountants and Statutory Auditor
Newcastle upon Tyne

DIRECTORS' REPORT

The directors present their annual report on the affairs of the company together with the financial statements and auditor's report for the year ended 31 December 2012

PRINCIPAL ACTIVITIES

The principal activity of the company continues to be the supply of tunnelling equipment and associated labour

REVIEW OF DEVELOPMENTS AND FUTURE PROSPECTS

During the year the low level of activity in pipe jacking and utility work continued which affected the rental sector of the business but this turnover has been replaced by our involvement with the supply of equipment for traffic tunnelling projects

The Company's forecasts and projections show that the Company should be able to operate within the level of its current resources and the directors believe that the company is well placed to manage the risks and uncertainties associated with the current economic outlook

After making enquiries, the directors have a reasonable expectation that the company has adequate reserves to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts

DIVIDENDS AND TRANSFER TO RESERVES

An interim dividend of £100,000 (2011 £nil) was paid during the year. The final dividend recommended by the directors is £nil (2011 £30,000). Profit after tax for the year was £947,512 (2011 £339,938)

DIRECTORS

The directors who held office during the year under review and since are

M Herrenknecht

R T Slocombe

AUDITOR

Each of the directors at the date of approval of this report separately confirms that

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware, and
- the 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

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006

Deloitte LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting

This directors' report has been prepared in accordance with the provisions applicable to companies subject to the small companies regime

Approved by the Board of Directors
and signed on behalf of the Board



R T Slocombe

Director

Date 18 April 13

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Standards and applicable law). 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

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HERRENKNECHT INTERNATIONAL LIMITED

We have audited the financial statements of Herrenknecht International Limited for the year ended 31 December 2012 which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses and the related notes 1 to 17. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

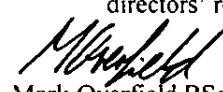
Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit
- the directors were not entitled to take advantage of the small companies exemption in preparing the directors' report.


Mark Overfield BSc FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
Newcastle Upon Tyne, United Kingdom
23 September 2013

HERRENKNECHT INTERNATIONAL LIMITED

PROFIT AND LOSS ACCOUNT Year ended 31 December 2012

	Note	2012 £	2011 £
TURNOVER	2	8,005,717	6,495,712
Cost of sales		<u>(5,637,363)</u>	<u>(5,614,416)</u>
GROSS PROFIT		2,368,354	881,296
Administrative expenses		<u>(1,207,842)</u>	<u>(707,943)</u>
OPERATING PROFIT	4	1,160,512	173,353
Profit on sale of fixed assets	4	15,901	309,148
Interest receivable and similar income	5	<u>63,695</u>	<u>47,308</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		1,240,108	529,809
Tax on profit on ordinary activities	6	<u>(292,596)</u>	<u>(129,871)</u>
PROFIT FOR THE FINANCIAL YEAR	14	<u>947,512</u>	<u>399,938</u>

All activities derive from continuing operations

The company has no recognised gains and losses in either the current or prior period other than as stated in the profit and loss account. Accordingly no statement of total recognised gains and losses has been presented.

HERRENKNECHT INTERNATIONAL LIMITED

BALANCE SHEET 31 December 2012

	Note	£	2012 £	£	2011 £
FIXED ASSETS					
Tangible assets	8		825,390		543,035
CURRENT ASSETS					
Stocks	9	596,783		53,155	
Debtors	10	4,353,669		3,278,151	
Cash at bank and in hand		293,164		142,421	
		<u>5,243,616</u>		<u>3,473,727</u>	
CREDITORS: amounts falling due within one year	11	<u>(2,543,549)</u>		<u>(1,314,893)</u>	
NET CURRENT ASSETS			<u>2,700,067</u>		<u>2,158,834</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			3,525,457		2,701,869
PROVISION FOR LIABILITIES AND CHARGES	12		<u>(124,220)</u>		<u>(148,144)</u>
NET ASSETS			<u>3,401,237</u>		<u>2,553,725</u>
CAPITAL AND RESERVES					
Called up share capital	13,14		1,105		1,105
Capital redemption reserve	14		395		395
Profit and loss account	14		<u>3,399,737</u>		<u>2,552,225</u>
TOTAL SHAREHOLDERS' FUNDS	14		<u>3,401,237</u>		<u>2,553,725</u>

The financial statements of Herrenknecht International Limited, registered number 1796113, were approved by the Board of Directors and authorised for issue on 18 September 2013

Signed on behalf of the Board of Directors



R T Slocombe

Date 18/09/13

NOTES TO THE ACCOUNTS
Year ended 31 December 2012

1. ACCOUNTING POLICIES

The principal accounting policies are summarised below. They have all been applied consistently in the current and preceding financial year.

Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards.

Preparation of accounts

These financial statements have been prepared on a going concern basis which assumes the company will continue in operational existence for the foreseeable future. This is discussed in the Directors' Report under the heading "Review of Developments and Future Prospects".

Turnover

Turnover represents sales and rentals of tunnelling machinery, excluding value added tax. This represents the value of services provided under contracts to the extent that there is a right to consideration and is recorded at the value of the consideration due. Where a contract has only been partially completed at the balance sheet date, turnover represents the value of the service provided to date based on a proportion of the total contract value.

Tangible fixed assets

No depreciation is provided on freehold land. Depreciation is provided at the following rates in order to write down other assets to their residual values over their estimated useful lives:

Freehold property	- 2% on cost
Plant and machinery	- 15% on reducing balance
Tunnelling machinery	- 25% on cost
Motor vehicles	- 25% on reducing balance
Furniture and equipment	- 33% on cost or 15% on reducing balance

Stocks

Stock has been valued on the first in first out basis at the lower of cost and net realisable value, after making due allowance for slow moving and obsolete items.

Foreign exchange

Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the rates ruling at that date. These translation differences are dealt with in the profit and loss account.

Taxation

Current tax including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full on all timing differences arising from the inclusion of gains and losses in tax assessment periods different from those in which they are recognised in the financial statements, that have originated but not reversed at the balance sheet date, calculated at the average rate at which it is expected that the tax will arise. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Pension costs

The company operates a defined contribution pension scheme. The amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

NOTES TO THE ACCOUNTS
Year ended 31 December 2012

1. ACCOUNTING POLICIES (continued)

Cash flow statement

A cash flow statement has not been provided as the company is a subsidiary undertaking of a group that produces publicly available consolidated financial statements in which the company's financial statements are included

2. TURNOVER

The turnover and profit before taxation are attributable to the principal activity of the company

An analysis of turnover by geographical market is given below

	2012 £	2011 £
United Kingdom	7,046,551	5,111,857
Europe	959,166	1,382,704
	<u>8,005,717</u>	<u>6,495,712</u>

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

The aggregate remuneration of employees during the year was as follows

	2012 £	2011 £
Wages and salaries	415,779	411,178
Social security costs	51,257	49,018
Other pension costs	154,907	28,997
	<u>621,943</u>	<u>489,193</u>

The average monthly number of employees during the year was as follows

	No.	No.
Directors	2	2
Administration	2	2
Engineers and technical support	8	7
	<u>12</u>	<u>11</u>

Directors' remuneration

	£	£
Emoluments (excluding pension contributions)	98,355	78,680
Pension contributions	127,639	3,252

One director was a member of the defined contribution pension scheme (2011 one)

NOTES TO THE ACCOUNTS
Year ended 31 December 2012

4. OPERATING PROFIT

The operating profit is stated after charging/(crediting)

	2012 £	2011 £
Depreciation – owned assets	124,911	154,232
Auditor's remuneration		
- fees payable to the company's auditor for the statutory audit of the company's annual accounts	14,000	9,750
- fees payable to the company's auditor and their associates for tax services	6,300	2,625
Foreign exchange differences – (profit)/loss	(58,783)	30,949
	<u> </u>	<u> </u>

The company made a profit on the disposal of tangible fixed assets amounting to £15,901 during the year (2011 £309,148)

5. INTEREST RECEIVABLE AND SIMILAR INCOME

	2012 £	2011 £
Other interest receivable – group undertakings	49,848	33,777
Other income	13,847	13,531
	<u>63,695</u>	<u>47,308</u>

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

(a) Analysis of the tax charge for the year	2012 £	2011 £
Current Tax		
Tax charge on profit before taxation at the standard rate of corporation tax in the UK of 24.5% (2011 28%)	316,520	63,809
Deferred Tax		
Timing differences, origination and reversal	(15,308)	76,452
Adjustment to tax charge in respect of previous periods	2,500	-
Effect of changes in tax rate	(11,116)	(10,390)
	<u>292,596</u>	<u>129,871</u>
 (b) Factors affecting the tax charge for the year		
Profit before taxation	<u>1,240,108</u>	<u>529,809</u>
Tax at 24.5% (2011 28%) thereon	303,793	140,399
Depreciation in excess of capital allowances	15,308	(76,452)
Effect of gains (incl Rollover relief)	-	(138)
Adjustment to tax charge in respect of previous periods	(2,581)	-
	<u>316,520</u>	<u>63,809</u>
Current tax charge for the period (see (a))	<u>316,520</u>	<u>63,809</u>

NOTES TO THE ACCOUNTS
Year ended 31 December 2012

6. TAX ON PROFIT ON ORDINARY ACTIVITIES (CONTINUED)

The standard rate of corporation tax changed from 26% to 24% with effect from 1 April 2012. Accordingly the company's profits for this accounting period have been taxed at an effective rate of 24.5%.

The Finance Act 2012, which was substantively enacted on 17 July 2012, included provisions to reduce the rate of corporation tax to 24% with effect from 1 April 2012 and 23% with effect from 1 April 2013. Accordingly, deferred tax balances have been revalued to the lower rate of 23% in these financial statements.

The Finance Act 2013, which provides for a reduction in the main rate of corporation tax from 23% to 21% effective from 1 April 2014 and to 20% effective from 1 April 2015, was substantively enacted on 2 July 2013. As these tax rates were not substantively enacted at the balance sheet date, the rate reduction is not yet reflected in these financial statements in accordance with FRS 21, as it is a non-adjusting event occurring after the reporting period.

7. DIVIDENDS

	2012 £	2011 £
Ordinary shares		
Interim paid £90.50 per ordinary share (2011: £nil)	100,000	-
Final paid £nil per ordinary share (2011: £27.15)	-	30,000
	<u>100,000</u>	<u>30,000</u>

8. TANGIBLE FIXED ASSETS

	Motor vehicles £	Furniture and equipment £	Freehold property £	Plant and machinery £	Tunnelling machinery £	Total £
Cost						
At 1 January 2012	585,496	84,419	91,719	49,328	1,350,316	2,161,278
Additions	-	-	22,541	-	669,319	691,860
Disposals	-	-	(22,236)	-	(368,825)	(391,061)
At 31 December 2012	<u>585,496</u>	<u>84,419</u>	<u>92,024</u>	<u>49,328</u>	<u>1,650,810</u>	<u>2,462,077</u>
Depreciation						
At 1 January 2012	115,844	25,943	84,384	44,137	1,347,935	1,618,243
Charge for the year	8,910	14,617	7,441	778	93,165	124,911
Disposals	-	-	(21,945)	-	(84,522)	(106,467)
At 31 December 2012	<u>124,754</u>	<u>40,560</u>	<u>69,880</u>	<u>44,915</u>	<u>1,356,578</u>	<u>1,636,687</u>
Net book value						
At 31 December 2012	<u>460,742</u>	<u>43,859</u>	<u>22,144</u>	<u>4,413</u>	<u>294,233</u>	<u>825,390</u>
At 31 December 2011	<u>469,652</u>	<u>58,476</u>	<u>7,335</u>	<u>5,191</u>	<u>2,381</u>	<u>543,035</u>

Included within furniture and equipment and tunnelling machinery are assets with a cost of £1,337,613 (2011: £1,124,596) which are fully depreciated.

NOTES TO THE ACCOUNTS
Year ended 31 December 2012

9. STOCKS

	2012	2011
	£	£
Raw materials & consumables	<u>596,783</u>	<u>53,155</u>

10. DEBTORS

	2012	2011
	£	£
Trade debtors	3,281,211	501,738
Amounts owed by parent undertaking	803,690	2,493,318
Prepayments and accrued income	268,364	265,527
Other debtors	404	17,568
	<u>4,353,669</u>	<u>3,278,151</u>

All amounts are due within one year

11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2012	2011
	£	£
Trade creditors	214,962	88,511
Amounts owed to group undertakings	1,676,653	356,662
Corporation tax	226,894	42,757
Other taxation and social security	315,591	307,908
Other creditors	6,995	7,613
Accruals and deferred income	102,454	511,442
	<u>2,543,549</u>	<u>1,314,893</u>

12. PROVISION FOR LIABILITIES

	2012	2011
	£	£
Deferred taxation	<u>124,220</u>	<u>148,144</u>
		Deferred taxation
		£
Balance at 1 January 2012		148,144
Movement during the year		<u>(23,924)</u>
Balance at 31 December 2012		<u>124,220</u>
Deferred taxation for which provision has been made in the financial statements are as follows		
	2012	2011
	£	£
Accelerated capital allowances	<u>124,220</u>	<u>148,144</u>

NOTES TO THE ACCOUNTS
Year ended 31 December 2012

13. CALLED UP SHARE CAPITAL

	2012 £	2011 £
Issued and fully paid		
1,105 ordinary shares of £1.00 each	1,105	1,105

14. STATEMENT OF MOVEMENT IN RESERVES AND RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Ordinary share capital £	Capital redemption reserve £	Profit and loss account £	2012 Total £	2011 Total £
1 January 2012	1,105	395	2,552,225	2,553,725	2,183,787
Profit for year	-	-	947,512	947,512	399,938
Dividends paid	-	-	(100,000)	(100,000)	(30,000)
31 December 2012	1,105	395	3,399,737	3,401,237	2,553,725

15. ULTIMATE PARENT COMPANY

At 31 December 2012, the company was a wholly owned subsidiary of Herrenknecht Schweiz Holding AG, a company incorporated in Switzerland. In the opinion of the directors, the company's ultimate parent company is Herrenknecht AG, a company incorporated in Germany.

The parent undertaking of the largest group which includes the company, and for which group accounts are prepared, is Herrenknecht AG, a company incorporated in Germany. The parent undertaking of the smallest such group is Herrenknecht Schweiz Holding AG, a company incorporated in Switzerland.

Copies of the financial statements for either group are available on application from

Schlehenweg 2
Schwanau 2
Germany
D77961

16. PENSION CONTRIBUTIONS

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in independently administered funds. The pension cost represents contributions payable by the company to the funds and these amounted to £152,907 (2011: £28,997).

17. RELATED PARTY TRANSACTIONS AND CONTROLLING RELATED PARTY

The company has taken advantage of the exemption available to subsidiary undertakings in FRS 8 'Related Party Disclosures' which allows it not to disclose transactions with other group entities or investees of the group qualifying as related parties.

The company is controlled by M Herrenknecht, a director, by virtue of his controlling interest in Herrenknecht AG, the ultimate parent company.