

**HERRENKNECHT INTERNATIONAL  
LIMITED**

**Annual Report and Financial Statements**

**For the year ended 31 December 2013**

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**ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 2013**

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**ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 2013**

**OFFICERS AND PROFESSIONAL ADVISERS**

**DIRECTORS**

M Herrenknecht  
R T Slocombe

**COMPANY SECRETARY**

D J Atkinson

**REGISTERED OFFICE**

Wearfield  
Sunderland Enterprise Park  
Sunderland  
Tyne and Wear  
SR5 2TZ

**BANKERS**

HSBC Bank plc  
Maingate  
Kingsway North  
Team Valley Trading Estate  
Gateshead  
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

## STRATEGIC REPORT

The directors present their strategic report, together with the directors' report, the financial statements and auditor's report for the year ended 31 December 2013.

### BUSINESS REVIEW AND PRINCIPAL ACTIVITIES

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

Together with our core business of small-diameter tunnelling equipment mainly for the utility market, the company continued to participate in contracts for larger-diameter equipment in 2013, some of which will continue through 2014. The largest of these is the Crossrail project, with a total of eight tunnelling machines in use under London over a 2 year period.

By their nature these larger-diameter tunnelling projects do not occur regularly but the company continues to market the full range of Herrenknecht Group products and advise clients on the latest advances in mechanised tunnelling technology and the most suitable equipment for individual project conditions.

During the year, turnover increased by 20.5% to £9.6m (2012: £8.0m). The company made a pre-tax profit of £2.3m (2012: £1.2m) and had net assets of £3.1m (2012: £3.4m) at the year end.

The Herrenknecht AG Group manages its operations on a centralised basis. For this reason, the company's directors believe that disclosure of further key performance indicators for the company is not necessary or appropriate for an understanding of the development, performance or position of the business.

At the date of this report the directors are not aware of any likely major changes in the company's activities during the next year or of any significant events beyond the control of the company which have occurred or are expected to occur, which could be likely to have a significant impact on earnings or on the course of the business.

### PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks for the company are regularly discussed with Group management and derive from:

- The cyclical nature of the small-diameter business in the utility sectors and the sporadic nature of the large-diameter tunnelling business;
- Payment risks typical in the construction industry; and
- Foreign exchange risk in cross-border trading.

These risks are mitigated by:

- Offering as wide a range of equipment as possible to enable the company to compete for technically-varied projects in all ground conditions and at all sizes;
- Utilising a variety of credit control measures and advance payments to minimise any risk of bad debts and delays to cash flows; and
- Hedging of foreign exchange risk in conjunction with the Group's Treasury Department.

The company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Company should be able to operate within the level of its current resources. As a consequence 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 financial statements.

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

R T Slocombe

Director

Date: 4 August 2014

## DIRECTORS' REPORT

The principal risks and uncertainties and an indication of future developments in the company have been discussed within the Strategic Report.

### DIVIDENDS AND TRANSFER TO RESERVES

An interim dividend of £2,007,715 (2012: £100,000) was paid during the year. The final dividend recommended by the directors is £nil (2012: £nil). Profit after tax for the year was £1,744,562 (2012: £947,512).

### 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 auditor and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

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



R T Slocombe

Director

Date: 4 August 2014

## **DIRECTORS' RESPONSIBILITIES STATEMENT**

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:

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

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

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

We have audited the financial statements of Herrenknecht International Limited for the year ended 31 December 2013 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 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion on 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 2013 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.

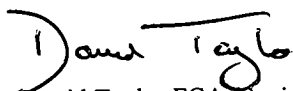
### Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and 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.



David Taylor FCA (Senior Statutory Auditor)  
for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor  
Newcastle Upon Tyne, United Kingdom

5 August 2014

# HERRENKNECHT INTERNATIONAL LIMITED

## PROFIT AND LOSS ACCOUNT For the year ended 31 December 2013

	Note	2013 £	2012 £
<b>TURNOVER</b>	2	9,643,267	8,005,717
Cost of sales		<u>(6,783,799)</u>	<u>(5,637,363)</u>
<b>GROSS PROFIT</b>		2,859,468	2,368,354
Administrative expenses		<u>(767,781)</u>	<u>(1,207,842)</u>
<b>OPERATING PROFIT</b>	4	2,091,687	1,160,512
(Loss)/profit on sale of fixed assets	4	(1,090)	15,901
Interest receivable and similar income	5	<u>169,977</u>	<u>63,695</u>
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		2,260,574	1,240,108
Tax on profit on ordinary activities	6	<u>(516,012)</u>	<u>(292,596)</u>
<b>PROFIT FOR THE FINANCIAL YEAR</b>	14	<u><u>1,744,562</u></u>	<u><u>947,512</u></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.



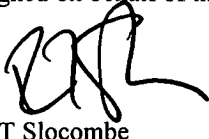
# HERRENKNECHT INTERNATIONAL LIMITED

## BALANCE SHEET As at 31 December 2013

	Note	£	2013 £	£	2012 £
<b>FIXED ASSETS</b>					
Tangible assets	8		734,975		825,390
<b>CURRENT ASSETS</b>					
Stocks	9	869,262		596,783	
Debtors	10	3,636,297		4,353,669	
Cash at bank and in hand		210,905		293,164	
		<u>4,716,464</u>		<u>5,243,616</u>	
<b>CREDITORS: amounts falling due within one year</b>	11	<u>(2,238,711)</u>		<u>(2,543,549)</u>	
<b>NET CURRENT ASSETS</b>			<u>2,477,753</u>		<u>2,700,067</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			3,212,728		3,525,457
<b>PROVISION FOR LIABILITIES AND CHARGES</b>	12		<u>(74,644)</u>		<u>(124,220)</u>
<b>NET ASSETS</b>			<u>3,138,084</u>		<u>3,401,237</u>
<b>CAPITAL AND RESERVES</b>					
Called up share capital	13,14		1,105		1,105
Capital redemption reserve	14		395		395
Profit and loss account	14		3,136,584		3,399,737
<b>TOTAL SHAREHOLDERS' FUNDS</b>	14		<u>3,138,084</u>		<u>3,401,237</u>

The financial statements of Herrenknecht International Limited (registered number 01796113) were approved by the Board of Directors and authorised for issue on 4 August 2014.

Signed on behalf of the Board of Directors



R T Slocombe

Date: 4 August 2014

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

### 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

The company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Company should be able to operate within the level of its current resources. As a consequence 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.

#### 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.

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**For the year ended 31 December 2013**

**1. ACCOUNTING POLICIES (continued)**

**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.

**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:

	2013 £	2012 £
United Kingdom	8,421,801	7,046,551
Europe	1,221,466	959,166
	<u>9,643,267</u>	<u>8,005,717</u>

**3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES**

The aggregate remuneration of employees during the year was as follows:

	2013 £	2012 £
Wages and salaries	411,980	415,779
Social security costs	51,196	51,257
Other pension costs	85,321	154,907
	<u>548,497</u>	<u>621,943</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	7	8
	<u>11</u>	<u>12</u>

**Directors' remuneration and highest paid director**

	£	£
Emoluments (excluding pension contributions)	93,247	98,355
Pension contributions	60,431	127,639

One director was a member of the defined contribution pension scheme (2012 : one).

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**For the year ended 31 December 2013**

**4. OPERATING PROFIT**

The operating profit is stated after charging/(crediting):

	2013 £	2012 £
Depreciation – owned assets	104,724	124,911
Auditor's remuneration		
- fees payable to the company's auditor for the statutory audit of the company's annual financial statements	14,000	14,000
- fees payable to the company's auditor and their associates for:		
- tax compliance services	4,800	4,300
- tax advisory services	4,000	2,000
Foreign exchange differences – profit	(3,587)	(58,783)
	<u>          </u>	<u>          </u>

The company made a loss on the disposal of tangible fixed assets amounting to £1,090 during the year (2012 profit: £15,901).

**5. INTEREST RECEIVABLE AND SIMILAR INCOME**

	2013 £	2012 £
Other interest receivable:		
– from group undertakings	22,485	25,269
– on consignment stock	130,457	24,579
Other income	17,034	13,847
	<u>169,977</u>	<u>63,695</u>

**6. TAX ON PROFIT ON ORDINARY ACTIVITIES**

(a) Analysis of the tax charge for the year	2013 £	2012 £
<b>Current Tax</b>		
Tax charge on profit before taxation at the standard rate of corporation tax in the UK of 23.25% (2012: 24.5%)	555,612	319,101
Adjustment in respect of prior years	9,979	(2,581)
	<u>565,588</u>	<u>316,520</u>
<b>Deferred Tax</b>		
Timing differences, origination and reversal	(29,323)	(15,308)
Adjustment to tax charge in respect of previous periods	(9,367)	2,500
Effect of changes in tax rate	(10,886)	(11,116)
	<u>516,012</u>	<u>292,596</u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**For the year ended 31 December 2013**

**6. TAX ON PROFIT ON ORDINARY ACTIVITIES (CONTINUED)**

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

Profit before taxation	2,260,574	1,240,108
Tax at 23.25% (2012: 24.5%) thereon	525,506	303,793
Expenses not deductible for tax purposes	781	-
Capital allowances in excess of depreciation	17,407	15,308
Movement in short term timing differences	11,915	-
Adjustment to tax charge in respect of previous periods	9,979	(2,581)
Current tax charge for the period	565,588	316,520

The standard rate of corporation tax changed from 24% to 23% with effect from 1 April 2013. Accordingly the company's profits for this accounting period have been taxed at an effective rate of 23.25%.

The Finance Act 2013, which was substantively enacted in July 2013, included provisions to reduce the rate of corporation tax to 21% with effect from 1 April 2013 and 20% with effect from 1 April 2015. Accordingly, deferred taxation is measured at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted at the balance sheet date. Accordingly, deferred tax balances have been revalued to the lower rate of 20% in these financial statements.

**7. DIVIDENDS**

	2013 £	2012 £
Ordinary shares		
Interim paid £1,816.94 per ordinary share (2012 : £90.50)	2,007,715	100,000

**8. TANGIBLE FIXED ASSETS**

	Freehold property £	Motor Vehicles £	Furniture and equipment £	Plant and machinery £	Tunnelling machinery £	Total £
<b>Cost</b>						
At 1 January 2013	585,496	84,419	92,024	49,328	1,650,810	2,462,077
Additions	-	19,740	409	-	-	20,149
Disposals	-	(18,336)	-	-	-	(18,336)
At 31 December 2013	585,496	85,823	92,433	49,328	1,650,810	2,463,890
<b>Depreciation</b>						
At 1 January 2013	124,754	40,560	69,880	44,915	1,356,578	1,636,687
Charge for the year	8,910	11,216	8,812	662	75,124	104,724
Disposals	-	(12,496)	-	-	-	(12,496)
At 31 December 2013	133,664	39,280	78,692	45,577	1,431,702	1,728,915
<b>Net book value</b>						
At 31 December 2013	451,832	46,543	13,741	3,751	219,108	734,975
At 31 December 2012	460,742	43,859	22,144	4,413	294,232	825,390

Included within furniture and equipment and tunnelling machinery are assets with a cost of £1,350,317 (2012: £1,337,613) which are fully depreciated.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**For the year ended 31 December 2013**

**9. STOCKS**

	<b>2013</b>	<b>2012</b>
	<b>£</b>	<b>£</b>
Raw materials & consumables	869,262	596,783

**10. DEBTORS**

	<b>2013</b>	<b>2012</b>
	<b>£</b>	<b>£</b>
Trade debtors	1,431,115	3,281,211
Amounts owed by group undertakings	1,691,230	803,690
Prepayments and accrued income	513,921	268,364
Other debtors	31	404
	<u>3,636,297</u>	<u>4,353,669</u>

All amounts are due within one year.

**11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	<b>2013</b>	<b>2012</b>
	<b>£</b>	<b>£</b>
Trade creditors	121,377	214,962
Amounts owed to group undertakings	897,112	1,676,653
Corporation tax	332,096	226,894
Other taxation and social security	370,067	315,591
Other creditors	48,537	6,995
Accruals and deferred income	469,522	102,454
	<u>2,238,711</u>	<u>2,543,549</u>

**12. PROVISION FOR LIABILITIES**

Deferred taxation for which provision has been made in the financial statements are as follows:

	<b>2013</b>	<b>2012</b>
	<b>£</b>	<b>£</b>
Accelerated capital allowances	93,042	124,220
Short term timing differences	(18,644)	-
Deferred taxation	<u>74,644</u>	<u>124,220</u>
		<b>Deferred taxation</b>
		<b>£</b>
Balance at 1 January 2013		124,220
Movement during the year		<u>(49,576)</u>
Balance at 31 December 2013		<u>74,644</u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**For the year ended 31 December 2013**

**13. CALLED UP SHARE CAPITAL**

	2013 £	2012 £
<b>Issued and fully paid</b>		
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 £	2013 Total £	2012 Total £
1 January 2013	1,105	395	3,399,737	3,401,237	2,553,725
Profit for year	-	-	1,744,562	1,744,562	947,512
Dividends paid	-	-	(2,007,715)	(2,007,715)	(100,000)
31 December 2013	1,105	395	3,136,584	3,138,084	3,401,237

**15. ULTIMATE PARENT COMPANY**

At 31 December 2013, 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 £83,321 (2012: £152,907).

**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.