

**HERRENKNECHT INTERNATIONAL
LIMITED**

Annual Report and Financial Statements

For the year ended 31 December 2014

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**ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

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**ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

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
United Kingdom
NE1 2HF

STRATEGIC REPORT

The directors present their strategic report, together with the directors' report, the audited financial statements and auditor's report for the year ended 31 December 2014.

BUSINESS REVIEW AND PRINCIPAL ACTIVITIES

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

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 throughout 2014, some of which will continue into 2015. The largest of these projects is Crossrail, where a total of eight tunnelling machines have been used under London during the past two years.

By their nature these larger-diameter tunnelling projects are sporadic 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 suitable equipment for future projects.

During the year, turnover decreased by 7.3% to £8.9m (2013: £9.6m). The company made a pre-tax profit of £1.5m (2013: £2.3m) and had net assets of £3.8m (2013: £3.1m) at the year end.

The Herrenknecht AG Group manages its operations on a centralised basis and 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.

Apart from the anticipated reduction in workload due to the completion of a number of traffic tunnelling projects, 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

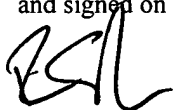
The principal risks for the company are regularly discussed with Group management and derive from:

- 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.

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



R T Slocombe
Director

Date: 22/06/2015

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 £487,940 (2013: £2,007,715) was paid during the year. The final dividend recommended by the directors is £nil (2013: £nil). Profit after tax for the year was £1,161,421 (2013: £1,744,562).

GOING CONCERN

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.

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: 22/06/2015

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 2014 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet, 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 2014 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.

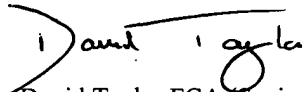
Opinion on other matter prescribed by the Companies Act 2006

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

23 June 2015

PROFIT AND LOSS ACCOUNT
For the year ended 31 December 2014

	Note	2014 £	2013 £
TURNOVER	2	8,859,181	9,643,267
Cost of sales		<u>(6,997,893)</u>	<u>(6,783,799)</u>
GROSS PROFIT		1,861,288	2,859,468
Administrative expenses		<u>(633,892)</u>	<u>(767,781)</u>
OPERATING PROFIT	4	1,227,396	2,091,687
Loss on sale of fixed assets	4	(2,603)	(1,090)
Interest receivable and similar income	5	<u>255,933</u>	<u>169,977</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		1,480,726	2,260,574
Tax on profit on ordinary activities	6	<u>(319,305)</u>	<u>(516,012)</u>
PROFIT FOR THE FINANCIAL YEAR	14	<u><u>1,161,421</u></u>	<u><u>1,744,562</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 separate statement of total recognised gains and losses has been presented.

BALANCE SHEET
As at 31 December 2014

	Note	2014	2013
		£	£
FIXED ASSETS			
Tangible assets	8	650,666	734,975
CURRENT ASSETS			
Stocks	9	475,159	869,262
Debtors	10	4,864,568	3,636,297
Cash at bank and in hand		402,200	210,905
		<u>5,741,927</u>	<u>4,716,464</u>
CREDITORS: amounts falling due within one year	11	<u>(2,511,438)</u>	<u>(2,238,711)</u>
NET CURRENT ASSETS		<u>3,230,489</u>	<u>2,477,753</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		3,881,155	3,212,728
PROVISION FOR LIABILITIES AND CHARGES	12	<u>(69,090)</u>	<u>(74,644)</u>
NET ASSETS		<u>3,812,065</u>	<u>3,138,084</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>3,810,565</u>	<u>3,136,584</u>
TOTAL SHAREHOLDERS' FUNDS	14	<u>3,812,065</u>	<u>3,138,084</u>

The financial statements of Herrenknecht International Limited (registered number 01796113) were approved by the Board of Directors and authorised for issue on *22 June* . 2015.

Signed on behalf of the Board of Directors



R T Slocombe

Date: *22/06/2015*

NOTES TO THE FINANCIAL STATEMENTS**For the year ended 31 December 2014****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 financial statements

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.

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

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment. 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.

Leases

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**For the year ended 31 December 2014****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:

	2014	2013
	£	£
United Kingdom	3,960,514	8,421,801
Europe	4,898,667	1,221,466
	<u>8,859,181</u>	<u>9,643,267</u>

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

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

	2014	2013
	£	£
Wages and salaries	407,655	411,980
Social security costs	46,460	51,196
Other pension costs	54,529	85,321
	<u>508,644</u>	<u>548,497</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	6	7
	<u>10</u>	<u>11</u>

Directors' remuneration and highest paid director

	£	£
Emoluments (excluding pension contributions)	85,899	93,247
Pension contributions	27,184	60,431
	<u>113,083</u>	<u>153,678</u>

One director was a member of the defined contribution pension scheme (2013: one).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

4. OPERATING PROFIT

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

	2014 £	2013 £
Depreciation – owned assets	108,975	104,724
Auditor's remuneration		
- fees payable to the company's auditor for the statutory audit of the company's annual financial statements	16,500	14,000
- fees payable to the company's auditor and their associates for:		
- tax compliance services	4,000	4,800
- tax advisory services	2,800	4,000
Foreign exchange differences – loss/(profit)	12,833	(3,587)
Operating lease rentals of plant and machinery	(606,152)	(319,365)
	<u> </u>	<u> </u>

The company made a loss on the disposal of tangible fixed assets amounting to £2,603 during the year (2013: loss: £1,090).

5. INTEREST RECEIVABLE AND SIMILAR INCOME

	2014 £	2013 £
Other interest receivable:		
- from group undertakings	41,834	22,485
- on consignment stock	196,846	130,457
Other income	17,253	17,034
	<u> </u>	<u> </u>
	255,933	169,977
	<u> </u>	<u> </u>

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

(a) Analysis of the tax charge for the year

	2014 £	2013 £
Current Tax		
Tax charge on profit before taxation at the standard rate of corporation tax in the UK of 21.43 % (2013: 23.25%)	324,781	555,612
Adjustment in respect of prior years	78	9,979
	<u> </u>	<u> </u>
	324,859	565,588
	<u> </u>	<u> </u>
Deferred Tax		
Timing differences, origination and reversal	(5,897)	(29,323)
Adjustment to tax charge in respect of previous periods	(67)	(9,367)
Effect of changes in tax rate	410	(10,886)
	<u> </u>	<u> </u>
	319,305	516,012
	<u> </u>	<u> </u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**For the year ended 31 December 2014****6. TAX ON PROFIT ON ORDINARY ACTIVITIES (CONTINUED)**

(b) Factors affecting the tax charge for the year:	2014 £	2013 £
Profit before taxation	1,480,726	2,260,574
Tax at 21.43% (2013: 23.25%) thereon	318,254	525,506
Expenses not deductible for tax purposes	630	781
Capital allowances in excess of depreciation	18,549	17,407
Movement in short term timing differences	(12,652)	11,915
Adjustment to tax charge in respect of previous periods	78	9,979
Current tax charge for the period	324,859	565,588

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

	2014 £	2013 £
Ordinary shares		
Interim paid £441.12 per ordinary share (2013 : £1,816.93)	487,440	2,007,715

8. TANGIBLE FIXED ASSETS

	Freehold property £	Motor Vehicles £	Furniture and equipment £	Plant and machinery £	Tunnelling machinery £	Total £
Cost						
At 1 January 2014	585,496	85,823	92,433	49,328	1,650,810	2,463,890
Additions	-	28,199	8,070	-	-	36,269
Disposals	-	(28,088)	(19,546)	-	-	(47,634)
At 31 December 2014	585,496	85,934	80,957	49,328	1,650,810	2,452,525
Depreciation						
At 1 January 2014	133,664	39,280	78,692	45,577	1,431,702	1,728,915
Charge for the year	8,909	15,383	8,998	564	75,121	108,975
Disposals	-	(16,485)	(19,546)	-	-	(36,031)
At 31 December 2014	142,573	38,178	68,144	46,141	1,506,823	1,801,859
Net book value						
At 31 December 2014	442,923	47,756	12,813	3,187	143,987	650,666
At 31 December 2013	451,832	46,543	13,741	3,751	219,108	734,975

Included within furniture and equipment and tunnelling machinery are assets with a cost of £1,350,317 (2013: £1,350,317) which are fully depreciated.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

9. STOCKS

	2014	2013
	£	£
Raw materials & consumables	475,159	869,262

10. DEBTORS

	2014	2013
	£	£
Trade debtors	1,357,447	1,431,115
Amounts owed by group undertakings	3,102,842	1,691,230
Prepayments and accrued income	404,279	513,921
Other debtors	-	31
	<u>4,864,568</u>	<u>3,636,297</u>

All amounts are due within one year.

11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2014	2013
	£	£
Trade creditors	123,653	121,377
Amounts owed to group undertakings	1,641,769	897,112
Corporation tax	190,401	332,096
Other taxation and social security	157,465	370,067
Other creditors	43,566	48,537
Accruals and deferred income	354,584	469,522
	<u>2,511,438</u>	<u>2,238,711</u>

12. PROVISION FOR LIABILITIES

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

	2014	2013
	£	£
Accelerated capital allowances	75,782	93,042
Short term timing differences	(6,692)	(18,398)
Deferred taxation	<u>69,090</u>	<u>74,644</u>
		Deferred taxation
		£
Balance at 1 January 2014		74,644
Movement during the year		<u>(5,554)</u>
Balance at 31 December 2014		<u>69,090</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 31 December 2014

13. CALLED UP SHARE CAPITAL

	2014 £	2013 £
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 £	2014 Total £	2013 Total £
1 January 2014	1,105	395	3,136,584	3,138,084	3,401,237
Profit for year	-	-	1,161,421	1,161,421	1,744,562
Dividends paid	-	-	(487,440)	(487,440)	(2,007,715)
31 December 2014	1,105	395	3,810,565	3,812,065	3,138,084

15. ULTIMATE PARENT COMPANY

At 31 December 2014, 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 £54,529 (2013: £83,321).

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.