

Lincoln Electric (UK) Limited

Report and Financial Statements

31 December 2016

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COMPANIES HOUSE

Lincoln Electric (UK) Limited

Corporate Information

Directors

M A Chalmers

Secretary

A J Cresswell (Appointed on 29th January 2016)

Auditors

Ernst & Young LLP
1 Bridgewater Place
Water Lane
Leeds
LS11 5QR

Bankers

Bank of America N.A.
2 King Edward Street
London
EC1A 1HQ

Solicitors

Nabarro Nathanson
1 South Quay
Victoria Quays
Wharf Street
Sheffield

Registered office

Mansfield Road
Aston
Sheffield
S26 2BS

Lincoln Electric (UK) Limited

Strategic Report for the year ended 31 December 2016

The directors present their strategic report for the year ended 31 December 2016.

Review of the business

The company's principal activities during the year continued to be the manufacture of solid welding wire, and the distribution of a comprehensive range of arc welding & cutting products. The directors consider that this will continue unchanged into the foreseeable future.

The key financial and other performance indicators during the year were as follows:

	2016 £'000	2015 £'000	Change %
Turnover	23,810	26,559	(10.3)
Operating profit	1,565	3,383	(53.7)
Profit after tax	1,368	2,886	(52.6)
Equity shareholders' funds	14,335	19,045	(24.7)
Current assets as a % of current liabilities ('quick ratio')	352	331	6.3
Average trade days*	206	162	27.2
Average number of employees	75	75	-

* Average trade days are calculated as stock plus debtors less creditors.

Principal risks and uncertainties

The main risks associated with the company's financial assets and liabilities are set out below.

Competitive risks

The company draws upon a wide market base for its sales opportunities and as such is not reliant on any single customer or segment for a significant proportion of its business. The Arc Welding market has always been highly competitive and barriers to entry to the market are not too stringent. However Lincoln Electric's overall strength and position in the global market provides the necessary platform to achieve sales growth in the UK & Eire.

Financial instrument risks

The management team conducts an annual risk assessment of the business and manages the risks identified to proactively prevent any material and adverse risk to the company's future operating profits or financial position. The objectives aim to limit undue counterparty exposure, ensure sufficient working capital exists and monitor the management of risk.

Foreign currency risks and use of derivatives

The Lincoln Group has established an exposure management framework whose primary objectives are to reduce cash flow fluctuations due to changes in exchange rates while optimising foreign currency management and minimising out of pocket expense. Based on forecasts of estimated foreign currency settlements for forthcoming months, the company enters into forward foreign exchange contracts to hedge the currency fluctuations. In 2017 the company hedged third party and intercompany purchases and sales, in addition to balance sheet translation effects. The company does not engage in hedging activities in order to

Lincoln Electric (UK) Limited

Strategic Report (continued) for the year ended 31 December 2016

Principal risks and uncertainties (continued)

generate exchange gains but rather to manage cost and maximise revenue. The company plans to continue to manage foreign currency exchange risks in this manner in 2017.

Price risk

The company's price risk arises primarily from exposure to changes in commodity prices and energy prices. The availability and prices for raw materials (primarily steel and copper) are subject to volatility and are influenced by worldwide economic conditions.

Lincoln Electric continues to use its European and Global reach to combine purchasing power in order to reduce exposure to price risks. The company also seeks continuous sourcing improvements for provision of energy supplies.

The company plans to continue to manage price risks in this manner in 2017.

Credit risk

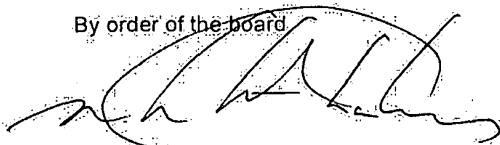
The company is exposed to the risk that a customer will fail to discharge an obligation and that this in turn will cause a financial loss. The company maintains an allowance for doubtful accounts for estimated losses based on the age of the related receivable, knowledge of the financial condition of the customer, and review of the customer payment history. Historically, the company's reserves have been adequate to cover any losses. The company has continued to self-insure against the risk of bad debt and has not experienced any material losses as a result of careful and prudent credit and receivable management.

Environmental regulations

The Company's facilities are subject to environmental regulations. In 2005 the Company was awarded and has since retained the Environmental Certification ISO 14001 and has continued to seek opportunities to improve its handling of waste as a result of its manufacturing and commercial operations.

The company is fully compliant with the WEEE regulations in respect of welding equipment supplied into the UK market, and complies with government packaging recycling regulations through Valpak.

By order of the board



M. A. Chalmers
Director

13th October 2017

Lincoln Electric (UK) Limited

Directors' Report

for the year ended 31 December 2016

Registered No. 01982670

The Directors present their report and the financial statements for the year ended 31 December 2016.

Directors of the company

The current directors are shown on page 1. M. Hallman resigned 22nd May 2017.

Dividends

The Directors approved the payment of a dividend paid at year end amounting to £1,450,000 (2015: £2,300,000).

Events since the balance sheet date

There are no material events since the balance sheet date.

Going concern

After making enquiries, the directors have a reasonable expectation that the company will continue to generate positive cash flows for the foreseeable future. Further financial support & liquidity, if required, are readily available via our immediate holding company supported by the parent company.

Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts. As a result the going concern basis of accounting has been adopted.

Financial instruments

Details of financial instruments are provided in the strategic report on page 2 and 3.

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

Re-appointment of auditors

In accordance with s485 of the Companies Act 2006, a resolution is to be proposed at the Annual General Meeting for reappointment of Ernst & Young LLP as auditor of the Company.

By order of the Board



M A Chalmers

Director

13th October 2017

Lincoln Electric (UK) Limited

Directors' Responsibilities Statement

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations:

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with FRS 102 The Financial Reporting Standard applicable in the UK (Generally Accepted Accounting Practice). 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 those 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; and
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;

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 Lincoln Electric (UK) Limited (continued)

We have audited the financial statements of Lincoln Electric (UK) Limited for the year ended 31 December 2016 which comprise the Income Statement, Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and the related notes 1 to 21. 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), including FRS 102 "The Financial Reporting standard applicable in the UK and Republic of Ireland".

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 Statement of Directors' Responsibilities, set out on page 5, 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 Reports and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, 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.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- ▶ 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.

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

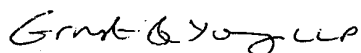
- ▶ the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.

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.



Eddie Diamond (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Leeds

16 October 2017

Lincoln Electric (UK) Limited

Income Statement

for the year ended 31 December 2016

		2016	2015
	Notes	£'000	£'000
Turnover	2	23,810	26,599
Cost of sales		(17,961)	(19,152)
Gross profit		5,849	7,447
Administrative expenses		(4,284)	(4,024)
Operating profit	3	1,565	3,383
Bank interest receivable	6	14	10
Interest receivable and similar income	7	108	86
Profit on ordinary activities before taxation		1,687	3,519
Tax on profit on ordinary activities	8	(319)	(633)
Profit for the financial year		1,368	2,886

All items dealt with in arriving at the profit on ordinary activities before taxation relate to continuing operations.

Lincoln Electric (UK) Limited

Statement of comprehensive income for the year ended 31 December 2016

	<u>Notes</u>	2016 £'000	2015 £'000
Profit for the financial year		1,368	2,886
Remeasurement (loss)/gain recognised on defined benefit pension scheme	18	(5,588)	14
Movement on deferred tax relating to pension liability	8(b)	960	(3)
Total other comprehensive (loss)/income		(4,628)	11
Total comprehensive (loss)/income for the year		(3,260)	2,897

Lincoln Electric (UK) Limited

Statement of changes in equity for the year ended 31 December 2016

	<i>Called up share capital</i>	<i>Capital redemption reserve</i>	<i>Profit and loss account</i>	<i>Total equity</i>
	£'000	£'000	£'000	£'000
At 1 January 2015	5,550	3,630	9,268	18,448
Profit for the year	-	-	2,886	2,886
Other comprehensive income	-	-	11	11
Total comprehensive income for the year	-	-	2,897	2,897
Equity dividend paid (note 16)	-	-	(2,300)	(2,300)
At 31 December 2015	5,550	3,630	9,865	19,045
Profit for the year	-	-	1,368	1,368
Other comprehensive loss	-	-	(4,628)	(4,628)
Total comprehensive loss for the year	-	-	(3,260)	(3,260)
Equity dividend paid (note 16)	-	-	(1,450)	(1,450)
At 31 December 2016	5,550	3,630	5,155	14,335

Lincoln Electric (UK) Limited

Statement of Financial Position

at 31 December 2016

		2016 £'000	2015 £'000
	<u>Notes</u>		
Fixed assets			
Tangible assets	9	2,211	2,442
Current assets			
Stocks	10	1,917	2,500
Debtors:			
amounts falling due within one year	11	18,759	18,341
Deferred Tax	8(e)	716	-
Cash at bank and in hand		2,115	2,957
		23,507	23,798
Creditors: amounts falling due within one year	12	(6,201)	(7,193)
Net current assets		17,306	16,605
Total assets less current liabilities		19,517	19,047
Provision for liabilities			
Derivatives	13	2	11
Deferred Tax	8(e)	-	(81)
		2	(70)
Net assets excluding pension liability		19,519	18,977
Defined benefit pension (liability)/asset	18	(5,184)	68
Net assets		14,335	19,045
Capital and reserves			
Called up share capital	15	5,550	5,550
Capital redemption reserve	17	3,630	3,630
Profit and loss account		5,155	9,865
		14,335	19,045

The financial statements were approved by the board of directors and were signed on its behalf by



M A Chalmers
Director
13th October 2017

Lincoln Electric (UK) Limited

Notes to the financial statements at 31 December 2016

1. Accounting policies

Statement of Compliance

Lincoln Electric (UK) Limited is a private company limited by shares incorporated in United Kingdom. The registered office is situated in Mansfield Road, Aston, Sheffield S26 2BS.

The company's financial statements have been prepared in compliance with FRS 102 as it applies to the financial statements of the company for the year ended 31 December 2016.

The results of company are included in the consolidated financial statements of Lincoln Electric Holdings Inc., ultimate parent company which are available from 22801 St. Clair Avenue, Cleveland, Ohio, 44117, USA.

Basis of preparation and change in accounting policy

The Company's financial statements are prepared on a going concern under the historical cost convention and in accordance with applicable accounting standards. The financial statements are prepared in sterling which is the functional currency of the company and rounded to the nearest pound in thousands (£'000).

Disclosure exemptions

The company has taken advantage of the following disclosure exemptions under FRS 102:

- i) a reconciliation of the number of shares outstanding at the beginning and end of the period. FRS 102 p4.12(a)(iv);
- ii) the requirement to prepare a statement of cash flows section 3 of FRS 102 and p3.17(d);
- iii) certain financial instrument disclosures, providing equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated. In addition the company law disclosures are still required;
- iv) medium-sized companies are exempt from the disclosures required by 1 Sch 72.
- v) the requirements of Section 11 Basic Financial Instruments paragraphs 11.41(b), 11.41(c), 11.41(e), 11.48(a)(iii), 11.48(b) and 11.48(c)
- vi) Section 33 Related Party Disclosures paragraph 33.7

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2016.

Judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

The following are the company's judgements (apart from those involving estimates) and key sources of estimation uncertainty:

Pension

The cost of defined benefit scheme and the present value of the obligation depend on a number of factors, including: life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation in the balance sheet. The assumptions reflects historical experience and current trend. The mortality rate is based on publicly available mortality tables for the specific country. Future salary increases and pension increases are based on expected future inflation rates for the respective country. Further details are given in note 18.

Lincoln Electric (UK) Limited

Notes to the financial statements at 31 December 2016 (continued)

1. Accounting policies (continued)

Judgements and key sources of estimation uncertainty (continued)

Operating lease commitments- company as a lessee

The Company has entered into lease of plant and machinery. The classification of such lease as operating or finance lease requires the company to determine, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a substantial portion of the economic life of the asset, the present value of the minimum lease payments not amounting to substantially all of the fair value of the asset, whether it retains or acquires the significant risks and rewards of ownership of these assets and accordingly whether the lease requires an asset and liability to be recognised in the balance sheet.

Taxation

The company establishes provisions based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience with previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority.

Management estimation is required to determine the amount of deferred tax assets that can be recognised, based upon likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies. Further details are contained in note 8.

Significant accounting policies

Tangible assets

Tangible assets are stated at cost less accumulated depreciation and accumulated impairment losses. Such cost includes the cost of replacing parts of the tangible assets directly attributable to making the asset capable of operating as intended.

Depreciation is provided on all tangible assets other than the freehold land, at rates calculated to write off the cost, less estimated residual value, of each asset on a systematic basis over its expected useful life as follows:

Buildings	- 30 to 40 years
Plant and machinery	- 5 to 15 years
Motor vehicles	- 4 years
Computer equipment	- 3 to 4 years
Fixtures and fittings	- 5 to 10 years

Depreciation is only provided once the fixed assets are in service and so no depreciation is provided on any capital in progress. The carrying values of tangible assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Lincoln Electric (UK) Limited

Notes to the financial statements at 31 December 2016 (continued)

Significant accounting policies (continued)

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition, as follows:

Raw materials, consumables and goods for resale	-	purchase cost on a first-in, first-out
Work in progress and finished goods	-	cost of direct materials and labour plus attributable overheads based on a normal level of activity.

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

Revenue recognition

Revenue is recognised to the extent that the company obtains the right to consideration in exchange for its performance. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duty.

The following criteria must also be met before revenue is recognised:

Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on dispatch of the goods.

Rendering of services

Revenue from installation of welding systems is recognised by reference to the stage of completion i.e. when the system is fully installed and operational.

Income taxes

Current income tax

Corporation tax payable is provided on taxable profits at current rates.

Deferred tax

Deferred tax is recognised in respect of all timing differences which are differences between taxable profits and total comprehensive income that 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, except that:

- where there are differences between amounts that can be deducted for tax for assets (other than goodwill) and liabilities compared with the amounts that are recognised for those assets and liabilities in a business combination a deferred tax liability/ (asset) shall be recognised. The amount attributed to goodwill is adjusted by the amount of the deferred tax recognised; and
- unrelieved tax losses and other deferred tax assets are recognised only to the extent that the directors consider that it probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Lincoln Electric (UK) Limited

Notes to the financial statements at 31 December 2016

(continued)

Significant accounting policies (continued)

Deferred tax (continued)

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Foreign currencies

The Company's functional and presentation currency is the pound sterling. Transactions in foreign currencies are initially recorded in the entity's functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date or if appropriate at the forward contract rate. All differences are taken to the profit and loss account.

Leasing and hire purchase commitments

At inception the Company assesses agreements that transfer the right to use assets. The assessment considers whether the arrangement is, or contains, a lease based on the substance of the arrangement.

Finance leased assets

Leases of assets that transfer substantially all the risks and rewards incidental to ownership are classified as finance leases.

Finance leases are capitalised at commencement of the lease as assets at the fair value of the leased asset or, if lower, the present value of the minimum lease payments calculated using the interest rate implicit in the lease. Where the implicit rate cannot be determined the company's incremental borrowing rate is used. Incremental direct costs incurred in negotiating and arranging the lease, are included in the cost of the asset. Assets are depreciated over the shorter of the lease term and the estimated useful life of the asset. Assets are assessed for impairment at each reporting date.

The capital element of lease obligations is recorded as a liability on inception of the arrangement. Lease payments are apportioned between capital repayment and finance charge, using the effective interest rate method, to produce a constant rate of charge on the balance of the capital repayments outstanding.

Operating leased assets

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Payments under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

Rental income is credited to the profit and loss account on straight line basis as and when due.

Pensions

The company operates defined benefit pension scheme which require contributions to be made to separately administered funds. A defined benefit plan defines the pension benefit that the employee will receive on retirement, usually dependent upon several factors including age, length of service and remuneration.

The liability recognised in the balance sheet in respect of the defined benefit plan is the present value of the defined benefit obligation at the reporting date less the fair value of the plan assets at the reporting date.

Lincoln Electric (UK) Limited

Notes to the financial statements at 31 December 2016

(continued)

Significant accounting policies (continued)

Pensions (continued)

The defined benefit obligation is calculated using the projected unit credit method. Annually the company engages independent actuaries to calculate the obligation. The present value is determined by discounting the estimated future payments using market yields on high quality corporate bonds that are denominated in sterling and that have terms approximating the estimated period of the future payments ('discount rate').

The fair value of plan assets is measured in accordance with the FRS 102 fair value hierarchy and in accordance with the company's policy for similarly held assets. This includes the use of appropriate valuation techniques.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income. These amounts together with the return on plan assets, less amounts included in net interest, are disclosed as 'Remeasurement of net defined benefit liability'.

The cost of the defined benefit plan, recognised in profit or loss as employee costs, except where included in the cost of an asset, comprises:

- the increase in pension benefit liability arising from employee service during the period; and
- the cost of plan introductions, benefit changes, curtailments and settlements.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is recognised in profit or loss as other finance revenue or cost.

2. Turnover

Turnover represents the amount derived from the provision of goods and services, stated net of value added tax. Turnover is attributable to company's principal activities being the manufacture, distribution and sale of welding consumables, equipment and accessories.

An analysis of turnover by geographical market is given below:

	2016 £'000	2015 £'000
United Kingdom	15,858	18,750
Europe	7,912	7,691
Other	40	158
	<u>23,810</u>	<u>26,559</u>

Lincoln Electric (UK) Limited

Notes to the financial statements at 31 December 2016 (continued)

3. Operating profit

This is stated after charging/(crediting):

	2016 £'000	2015 £'000
Auditors' remuneration (note 4)	58	51
Depreciation of owned fixed assets (note 9)	349	323
Depreciation of assets held under finance leases and hire purchase contracts	2	2
Operating lease rentals- plant and machinery	138	135
Foreign exchange differences	107	184

4. Auditors' remuneration

	2016 £'000	2015 £'000
Audit of the financial statements	23	37
Other non-audit services	21	14
	58	51

5. Staff costs

a) Staff costs

	2016 £'000	2015 £'000
Wages and salaries	2,629	2,581
Social security costs	294	269
Other pension costs (note 18)	463	446
	3,386	3,296

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

	2016 No.	2015 No.
Administrative staff	41	43
Manufacturing	34	32
	75	75

Lincoln Electric (UK) Limited

Notes to the financial statements at 31 December 2016 (continued)

6. Interest receivable and similar income

	2016 £'000	2015 £'000
Bank interest	14	10
	<u>14</u>	<u>10</u>

7. Other finance costs

	2016 £'000	2015 £'000
Expected return on pension scheme assets	1,106	1,065
Interest paid on pension scheme liability	(1,097)	(1,092)
Interest receivable on amounts owed by group undertakings	99	113
	<u>108</u>	<u>86</u>

8. Tax

a) Tax on profit on ordinary activities

	2016 £'000	2015 £'000
<i>The tax charge is made up as follows:</i>		
<i>Current tax:</i>		
UK corporation tax at 20% (2015: 20.25%)	172	230
Adjustment in respect of previous years	(6)	-
<i>Total current tax</i>	<u>166</u>	<u>230</u>
<i>Deferred tax</i>		
Origination and reversal of timing differences	179	415
Adjustment in respect of previous periods	5	1
Effect of change in tax rates	(31)	(13)
<i>Total deferred tax</i>	<u>153</u>	<u>403</u>
<i>Tax on profit on ordinary activities (note 8(c))</i>	<u>319</u>	<u>633</u>

b) Tax included in statement of total other comprehensive income

The tax credit/(charge) is made up as follows:

	2016 £'000	2015 £'000
<i>Deferred tax:</i>		
Actuarial gain/(loss) on pension scheme	960	(3)
<i>Total tax credit/(charge)</i>	<u>960</u>	<u>(3)</u>

Lincoln Electric (UK) Limited

Notes to the financial statements at 31 December 2016 (continued)

c) Factors affecting the total tax charge

The tax assessed on the profit on ordinary activities for the year is the standard rate of corporation tax in the UK of 20% (2015: 20.25%).

The differences are reconciled as below:

	2016 £'000	2015 £'000
Profit on ordinary activities before tax	1,687	3,519
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2015 – 20.25%)	337	712
Income / expenses not deductible for tax purposes	14	(71)
Gains / rollover relief	-	4
Adjustment from previous periods	(1)	1
Tax rate changes	(31)	(13)
Total tax expense	319	633

d) Factors that may affect future tax charges

The 2015 and 2016 Budgets announced a number of changes to the corporation tax rate. These included a reduction in the UK corporation tax rate from 20% to 19% effective from 1 April 2017 and further reductions in the UK corporation tax rate to 17% from 1 April 2020.

The rate reduction to 17% was substantively enacted in September 2016. Deferred tax has therefore been provided at 17%.

e) Deferred tax

The deferred tax included in the balance sheet is as follows:

	2016 £'000	2015 £'000
Accelerated capital allowances	(171)	(173)
Adjustments in respect to prior years	(5)	-
Deferred tax on Pension contributions	887	86
Deferred tax on Pension (asset) / liability	-	-
Deferred tax on derivative contracts	5	6
Deferred tax asset / (Provision for deferred tax)	716	(81)
		£'000
At 1 January 2016		(81)
Adjustments in respect to prior years		(5)
Deferred tax charged / (credit) in profit and loss account		(148)
Amount credited to other comprehensive income		950
At 31 December 2016		716

Lincoln Electric (UK) Limited

Notes to the financial statements at 31 December 2016 (continued)

9. Tangible assets

	Freehold land & buildings* £'000	Plant and machinery £'000	Fixtures and fittings £'000	Capital in progress £'000	Total £'000
<i>Cost:</i>					
At 1 January 2016	2,524	5,458	282	5	8,269
Additions	-	-	-	129	129
Disposals	-	(11)	-	-	(11)
Transfer to other category	7	94	-	(101)	-
At 31 December 2016	2,531	5,541	282	33	8,387
<i>Depreciation:</i>					
At 1 January 2016	1,952	3,616	259	-	5,827
Provided during the year	84	261	4	-	349
Disposals	-	-	-	-	(11)
At 31 December 2016	2,036	3,877	263	-	6,176
<i>Carrying amount:</i>					
At 31 December 2016	495	1,664	19	33	2,211
At 1 January 2016	572	1,842	23	5	2,442

*Included in freehold land and building above is £93,189 in relation to land on which no depreciation is charged.

Hire Purchase Agreements and Finance Leases

Included within the net book value of £2,211,000 is £9,000 (2015: £11,000) relating to assets held under hire purchase agreements. The depreciation charged to the financial statements in the year in respect of such assets amounted to £2,000 (2015: £2,000).

10. Stocks

	2016 £'000	2015 £'000
Raw materials	558	943
Finished goods	1,359	1,557
	<u>1,917</u>	<u>2,500</u>

The difference between purchase price or production cost of stocks and their replacement cost is not material.

Stocks recognised as an expense in the period were £17,961,102 (2015: £19,071,992).

Lincoln Electric (UK) Limited

Notes to the financial statements at 31 December 2016 (continued)

11. Debtors

	2016 £'000	2015 £'000
Trade debtors	3,454	3,731
Amounts owed by group undertakings	14,001	13,309
Corporation tax	1,174	1,154
Other debtors	4	21
Prepayments and accrued income	126	126
	<u>18,759</u>	<u>18,341</u>

12. Creditors: amounts falling due within one year

	2016 £'000	2015 £'000
Trade creditors	1,503	2,500
Amounts owed to group undertakings	4,050	4,023
Other taxes and social security	309	349
Accruals and deferred income	330	310
Obligations under finance leases and hire purchase contracts	9	11
	<u>6,201</u>	<u>7,193</u>

13. Provision for Liabilities

	2016 £'000	2015 £'000
At 1 January	11	(43)
Movement in derivatives	(9)	54
At 31 December	<u>2</u>	<u>11</u>

Lincoln Electric (UK) Limited

Notes to the financial statements at 31 December 2016 (continued)

14. Obligations under leases and hire purchase contracts

Operating lease arrangements

Future minimum rentals payable under non-cancellable operating leases are as follows:

	2016	2015
	£'000	£'000
Not later than one year	20	33
Later than one year and not later than five years	28	61
Later than five years	-	-
	<u>48</u>	<u>94</u>

15. Allotted and issued share capital

	2016	2015
	£'000	£'000
<i>Allotted, called up and fully paid:</i>		
Ordinary shares 4,750,000 (2015: 4,750,000) of £1 each	4,750	4,750
Preference shares 800,000 (2015: 800,000) of £1 each	<u>800</u>	<u>800</u>
	<u>5,550</u>	<u>5,550</u>

The dates on which the company can redeem the preference shares are at the option of the company; there is no premium payable on redemption.

The preference shares do not entitle their holders to any rights to receive notice of, to be present, speak or vote, either in person or by proxy, at any general meeting of the Company.

On a winding up of the company the preference shareholders have the right to receive, in priority to any payments to ordinary shareholders, the amounts paid up on the preference shares.

16. Dividends

	2016	2015
	£'000	£'000
<i>Declared and paid during the year</i>		
Equity dividends on ordinary shares:		
Interim dividend 31 p (2015: 48 p)	<u>1,450</u>	<u>2,300</u>

Lincoln Electric (UK) Limited

Notes to the financial statements at 31 December 2016

(continued)

17. Reserves

Capital redemption reserve

This reserve records the nominal value of shares repurchased by the company

18. Pensions

The company operates a defined benefit scheme in the UK. This is a separate trustee administered fund holding the pension scheme assets to meet long term pension liabilities. A full actuarial valuation was carried out at 5 April 2015 and updated to 31 December 2016 by a qualified actuary, independent of the scheme's sponsoring employer. The major assumptions used by the actuary are shown below.

The actuarial valuation as at 5 April 2015 showed a deficit of £1,710,000. The company has agreed with the trustees that it will aim to eliminate the deficit by 30 April 2016 via the payment of monthly deficit contributions of £150,000 from 1 April 2015 to 29 February 2016 and a further payment of £150,000 payable by the end of April 2016. In addition and in accordance with the actuarial valuation, the company has agreed with the trustees that from 1 April 2016 it will pay 29.4% of pensionable earnings in respect of the cost of accruing benefits (previous contribution rate was 22.1%) and will meet the expenses of the scheme and levies to the Pension Protection Fund. Additional contributions will be paid in respect of augmentations or benefit improvements as agreed with the Scheme Actuary. Member contributions are payable in addition at the rate of 7% of pensionable pay. There will be no contributions made to the scheme for 2017.

The assets and liabilities of the schemes at 31 December are:

	2016 £'000	2015 £'000
<i>Scheme assets at fair value:</i>		
Equities	-	-
Bonds	10,661	9,654
Other	20,330	20,189
Fair value of scheme assets	30,991	29,843
Present value of scheme liabilities	(36,175)	(29,775)
	(5,184)	68

The amount recognised in Profit and Loss account and in the Statement of Other Comprehensive Income for the year is analysed as follows:

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
<i>Recognised in the Profit and Loss account</i>		
Current service cost	472	446
Expenses	-	-
Recognised in arriving at operating profit	472	446
Net interest on net defined benefit asset/liability	(9)	27
Total recognised in the profit and loss account	463	473

Lincoln Electric (UK) Limited

Notes to the financial statements at 31 December 2016 (continued)

18. Pensions (continued)

	Year ended 31 December 2016 £'000	Year ended 31 December 2015 £'000
<i>Recognised in other comprehensive income:</i>		
Actual return on scheme assets	(38)	(488)
Less: amounts included in net interest on the net defined benefit liability	-	-
	(38)	(488)
Other actuarial gains and losses	(5,550)	502
Remeasurement gains and losses recognised in other comprehensive income	(5,588)	14

Main assumptions:

	2016 %	2015 %
Rate of salary increases	4.2	4.1
Rate of increase in deferred pensions	2.3	2.1
Discount rate	2.8	3.7
Inflation assumption	3.3	3.1

	2016	2015
Mortality Rates:		
Life expectancy (in years):		
at age 65 for someone who is currently 65 (pensioner)	Male 21.7 years Female 23.7 years	21.6 years 23.6 years
at age 65 for someone who is currently 45 (non-pensioner)	Male 23.8 years Female 26.0 years	23.6 years 25.9 years

Changes in the present value of the defined benefit pension obligations are analysed as follows:

	2016 £'000	2015 £'000
As at 1 January	(29,775)	(29,843)
Current service cost	(472)	(446)
Expenses	-	-
Interest cost	(1,097)	(1,092)
Actuarial gains and (losses)	(5,550)	502
Contributions by employees	(64)	(80)
Benefits paid	783	1,184
As at 31 December	(36,175)	(29,775)

Lincoln Electric (UK) Limited

Notes to the financial statements at 31 December 2016 (continued)

18. Pensions (continued)

Changes in the fair value of plan assets are analysed as follows:

	2016	2015
	£'000	£'000
As at 1 January	29,843	28,296
Expected return on assets	1,106	1,065
Actuarial gains (losses)	(38)	(488)
Contributions by employer	799	2,074
Contributions by employees	64	80
Benefits paid	(783)	(1,184)
As at 31 December	30,991	29,843

19. Guarantees and other financial commitments

The company is party to a specific guarantee with Her Majesty's Revenue & Customs for £100,000.

20. Related party transactions

During the year the company entered into transactions, in the ordinary course of business, with other related parties. Trading balances outstanding at 31 December, are as follows:

	Amounts owed from related parties £'000	Amounts owed to related parties £'000
<i>Parent company</i>		
2016	-	(10)
2015	-	(24)
<i>Sister company(s)</i>		
2016	540	(677)
2015	356	(938)

During the year the company entered into transactions, in the ordinary course of business, with other related parties. Non-trading balances outstanding at 31 December, are as follows:

	Amounts owed from related parties £'000	Amounts owed to related parties £'000
<i>Parent company</i>		
2016	13,402	(3,249)
2015	12,819	(2,112)
<i>Sister company(s)</i>		
2016	58	(114)
2015	309	(109)

Lincoln Electric (UK) Limited

Notes to the financial statements at 31 December 2016 (continued)

20. Related party transactions (continued)

The company has taken advantage of the exemption as per paragraph 33.1A of FRS102 and has therefore not disclosed transactions or balances with entities which form part of the Group (or investees of the Group qualifying as related parties).

21. Ultimate parent undertaking and controlling party

The company's immediate parent undertaking is Lincoln Electric UK Holdings Limited ("LEUKH") incorporated in United Kingdom. Copies of the accounts are available from Lincoln Electric (UK) Ltd., Mansfield Road, Aston, Sheffield, South Yorkshire, S26 2BS, UK.

In the director's opinion, the company's ultimate parent undertaking and controlling party is Lincoln Electric Holdings Inc., a company incorporated in the USA. Copies of the group accounts, which include the Company, are available from the Lincoln Electric Holdings Inc., 22801 St. Clair Avenue, Cleveland, Ohio, 44117, USA.