Voith Paper Fabrics Blackburn Limited

Report and Financial Statements

30 September 2010

Directors
M Maier
M Scherrer

Auditors
Ernst & Young LLP
100 Barbirolli Square
Manchester M2 3EY

Bankers
HSBC Bank plc
60 Church Street
Blackburn
Lancashire BB1 5AS

Solicitors
Taylors Solicitors
Rawlings House
Exchange Street
Blackburn BB1 7JN

Registered Office
Stubbins Vale Mill
Stubbins Vale Road
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Directors' report

The directors present their report and financial statements for the year ended 30 September 2010

Results and dividends

The directors do not recommend the payment of any dividends (2009 – £nil)

The retained profit for the year of £890,736 (2009 – profit of £213,502) was transferred to reserves

Principal activities and review of the business

The company is one of the world's leading suppliers of paper machine clothing and produces press and dry fabrics and is through its ultimate parent company part of the Voith Paper division The core function of the company is to provide solutions for the customers' process requirements through product design, manufacturing consistency, application, development and innovation This concept is shared by the Voith Paper division which is unique as a manufacturer and supplier of both paper machines and clothing The products, systems and services that are offered by Voith Paper and Voith's strategic partners are coordinated with one another and support the paper industry in optimizing its production processes and improving paper quality Worldwide research and development facilities include pilot machines in Appleton, Wisconsin, Saõ Paulo, Brazil, Ravensburg and Heidenheim, Germany At these facilities, professional engineers experiment with the theoretical and practical aspects of paper making to develop tomorrow's technological advances in the paper machine and paper machine clothing industry

The company has adopted a process for the identification, assessment, treatment, monitoring and reporting of risk This process helps support business objectives by linking into business strategy, identifying and reacting to emerging risks and developing cost effective solutions to risk exposures

In addition to the above, the company's principal activities create an exposure to other risk factors that are both external and internal to the company These risks include but are not limited to failure to comply with legislative and regulatory requirements including environmental and litigation risk, business continuity and the actions of customers and competitors The company has implemented risk controls and loss mitigation plans, which have been effective to date, but cannot give absolute assurance that such procedures will be effective in identifying or controlling each of the operational risks faced by the company

Events since the balance sheet date

On 30th September 2009 manufacturing ceased at the Blackburn site, whilst the company continues to trade as a sales function On 1st October 2010 the company ceased making sales to external customers with all sales made to group companies

Directors' report

Charitable contributions

During the year the company made no charitable donations in the UK (2009 – £nil)

Directors and their interests

The directors of the company during the year were

M T Maier
M G Scherrer

No director had any beneficial interests in the shares of the company or any group company during the year

Disabled employees

The company gives every consideration to applications from disabled persons where the requirements of the job may be adequately fulfilled by a handicapped or disabled person Where existing employees become disabled, it is the company's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training, career development and promotion wherever appropriate

Equal opportunities

The company is an equal opportunities employer The company's aim is that no employee receives less favourable treatment in any sphere of employment on the grounds of age, sex or marital status, race or ethnic origins or is disadvantaged

Employment involvement

The company is committed to involve all employees in the performance and development of the company Employees are encouraged to discuss with management matters of interest to the employee and subjects affecting the day to day operations of the company Goal agreements and employee dialogue are an integral part of the leadership concept implemented throughout the company

Treasury policies

The company finances its activities with a combination of own cash flow and the Voith cashpool in the UK Other financial assets and liabilities, such as trade debtors and trade creditors arise directly from the company's operating activities Some of the companies transactions are in other currencies than sterling therefore the company operates overdrafts in EUR und USD to hedge this exposure

Liquidity risk

The company aims to mitigate liquidity risk by managing the cash generated by its operations

Investment is carefully monitored, with authorisation at group level and cash payback periods applied as part of the investment appraisal process The approval procedures apply to all capital items purchased outright, leased, rented or subject to hire purchase agreements

Directors' report

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 group's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself 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 and Young LLP as auditor of the company

On behalf of the Board

Director MARKUS MAIER

Date 29 JUNE 2011

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting 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 group and the company and of the profit or loss of the group 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,
- 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 proper accounting records that are sufficient to show and explain the group's and the company's transactions and disclose with reasonable accuracy at any time the financial position of the group and 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 group and the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Independent auditors' report

to the members of Voith Paper Fabrics Blackburn Limited

We have audited the financial statements of Voith Paper Fabrics Blackburn Limited for the year ended 30 September 2010 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses 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)

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 auditors

As explained more fully in the Directors' Responsibilities Statement 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 (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

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

Opinion on the financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 30 September 2010 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

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

Independent auditors' report

to the members of Voith Paper Fabrics Blackburn Limited

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

Ernst & Young LLP

Gary Harding (Senior statutory auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
Manchester
Date 29 June 2011

Profit and loss account

For the year ended 30 September 2010

	Notes	2010 £	2009 £
Turnover	2	8,547,114	17,486,841
Change in stocks of finished goods and work in progress		(439,046)	(1,190,386)
Other operating income		61,160	202,543
Raw materials and consumables		(6,005,948)	(9,274,728)
Other external charges		(1,819,780)	(4,290,174)
Staff costs	3	(706,967)	(3,749,972)
Depreciation and amortisation	5	(197,169)	(476,502)
Operating loss	5	(560,637)	(1,292,378)
Interest receivable from group undertakings		-	4,753
Interest payable and similar charges	6	(32,026)	(54,415)
Loss on disposal of fixed assets		(912)	962
Restructuring income	7	196,461	223,765
Loss on ordinary activities before taxation		(397,114)	(1,117,313)
Taxation on loss on ordinary activities	8	1,287,850	1,330,815
Profit for the financial year	16	890,736	213,502

All amounts relate to continuing operations

Statement of total recognised gains and losses

There are no recognised gains or losses other than the profit of £890,736 attributable to the shareholders for the year ended 30 September 2010 (2009 – profit of £213,502)

Balance sheet

at 30 September 2010

	Notes	2010 £	2009 £
Fixed assets			
Tangible assets	9	155,760	904,050
Current assets			
Stocks	10	1,511,670	2,710,773
Debtors	11	7,142,600	9,343,268
Cash at bank and in hand		972,110	549,191
		9,626,380	12,603,232
Creditors amounts falling due within one year	12	(6,195,198)	(8,566,084)
Net current assets		3,431,182	4,037,148
Total assets less current liabilities		3,586,942	4,941,198
Provision for liabilities	13	(326,090)	(2,567,148)
Deferred government grants	14	(6,068)	(10,002)
		3,254,784	2,364,048
Capital and reserves			
Called up share capital	15	14,400,002	14,400,002
Profit and loss account	16	(11,145,218)	(12,035,954)
Shareholders' funds	17	3,254,784	2,364,048

Director MARKUS MAIER

Date 29 JUNE 2011

Notes to the financial statements

For the year ended 30 September 2010

1. Accounting policies

The financial statements of Voith Paper Fabrics Blackburn Limited were approved for issue by the Board of Directors on

The financial statements have been prepared under the historical cost convention and are in accordance with applicable accounting standards These financial statements have been prepared on the going concern basis as the directors believe that the company has adequate resources to continue its operation for the foreseeable future The following principal accounting policies have been applied

Depreciation

Depreciation is calculated to write down the cost of all tangible fixed assets (except freehold land) by equal annual instalments over their expected useful lives The periods generally applicable are

Freehold buildings	–	40 years
Plant and machinery	–	between 3 and 15 years
Fixtures and fittings	–	between 5 and 10 years
Computer equipment	–	between 3 and 5 years

Stocks and work in progress

Stocks are valued at the lower of cost and net realisable value Progress payments received and receivable are deducted from work in progress, where progress payments exceed the value of work in progress the excess is included in creditors Cost includes all costs incurred in bringing each product to its present location and condition, as follows

Raw materials, consumables and other stocks	–	purchase cost, less trade discounts, on a first in, first out basis
Work in progress and finished goods	–	cost of direct materials, less trade discounts, and labour plus attributable overheads based on a normal level of activity

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

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions

- provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold,

- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

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

Notes to the financial statements

For the year ended 30 September 2010

1. Accounting policies (continued)

Leasing and hire purchase commitments

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the company, and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives The capital elements of future obligations under the leases and hire purchase contracts are included as liabilities in the balance sheet

The interest elements of the rental obligations are charged in the profit and loss account over the periods of the leases and hire purchase contracts and represent a constant proportion of the balance of capital repayments outstanding

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term

Foreign currency

Monetary assets and liabilities denominated in foreign currencies at the accounting date are translated at the rates of exchange prevailing at the balance sheet date or, where covered by forward currency contracts, at the forward rate Gains and losses arising from currency fluctuations are included in the profit on ordinary activities before taxation

Research and development

Research and development expenditure is written off in the year in which it is incurred

Pension costs

The staff and employees of the company are eligible to be members of The Voith UK Pension Scheme, a defined contribution pension scheme The pension costs charged against profits represent the amount of the contributions payable to the scheme in respect of the accounting period.

Related party transactions

The company has taken advantage of the exemption available under paragraph 3(c) of Financial Reporting Standard No 8, permitting non-disclosure of transactions between consolidated group undertakings

Government grants

Government grants in respect of capital expenditure are credited to a deferred income account and are released to profit over the expected useful lives of the relevant assets by equal annual instalments

Grants of a revenue nature are credited to income so as to match them with the expenditure to which they relate

Cash flow

The ultimate parent undertaking presents a consolidated cash flow statement in its financial statements The company has, therefore, not presented a cash flow statement, as allowed by FRS1 (Revised)

Notes to the financial statements

For the year ended 30 September 2010

2. Turnover

Turnover is the total amount receivable by the company in the ordinary course of business for goods supplied as a principal, and excludes value added tax

Commission income from group companies is accounted for on a receivable basis

The turnover and profit before taxation is attributable to the principal activity of design, manufacture and trading of paper machine clothing

	2010	*2009*
	£	*£*
Turnover is analysed as follows		
United Kingdom	4,044,971	7,994,690
Rest of Europe	3,829,226	7,184,066
North America	68,762	2,121
Asia	583,310	56,544
Other	20,845	2,249,420
	8,547,114	17,486,841

3. Staff costs

	2010	*2009*
	£	*£*
Wages and salaries	610,489	3,248,480
Social security costs	63,975	343,902
Other pension costs	32,503	157,590
	706,967	3,749,972

The monthly average number of employees (including directors) during the year was as follows

	2010	2009
	No	*No*
Production	-	94
Sales	-	18
Administration	4	11
	4	123

Notes to the financial statements

For the year ended 30 September 2010

4. Directors' emoluments

	2010 £	2009 £
Emoluments	-	165,098
Company contributions to money purchase pension schemes	-	6,069
	-	171,167

	2010 No	2009 No
Members of money purchase pension schemes	-	1

5. Operating loss

	2010 £	2009 £
This is stated after charging/(crediting)		
Depreciation	197,169	476,502
	197,169	476,502

		2010 £	2009 £
Operating lease rentals	– plant and machinery	75,149	113,073
Government grants released		(3,934)	(6,744)
Auditors' remuneration	– audit services	23,991	19,761
	– non-audit services	9,417	8,910
Loss/(profit) on foreign currency translation		445,752	(297,863)

6. Interest payable and similar charges

	2010 £	2009 £
Bank overdrafts	-	24,524
Interest on intercompany loans/cash pool	32,026	29,891
	32,026	54,415

7. Restructuring costs

Restructuring income of £196,461 has been credited in the year This represents the net of increases in the restructuring provision during the year of £101,527 and income from the sale of fixed assets of £297,988

Notes to the financial statements

For the year ended 30 September 2010

8. Tax

(a) Tax on loss on ordinary activities

The tax credit is made up as follows

	2010 £	2009 £
Current tax		
UK corporation tax on the loss for the year	(85,823)	(1,431,217)
(Over)/under provision in prior years	(1,021,759)	100,402
Total current tax (note 8(b))	(1,107,582)	(1,330,815)
Deferred tax		
Losses (note 8(c))	(180,268)	–
Tax on loss on ordinary activities	(1,287,850)	(1,330,815)

(b) Factors affecting tax credit for the year

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 28% (2009 – 28%) The differences are explained below

	2010 £	2009 £
Loss on ordinary activities before taxation	(397,114)	(1,117,313)
Loss on ordinary activities at the standard rate of corporation tax in the UK of 28% (2009 – 28%)	(111,192)	(312,848)
Effects of		
Expenses not deductible for tax purposes	70,501	(289,522)
Capital allowances and depreciation	40,352	355,168
Adjustments to tax charge in respect of previous years	(1,021,759)	100,402
Provisions deductible in a period other than in which provided	(85,484)	(1,184,015)
	(1,107,582)	(1,330,815)

(c) Factors affecting future tax charges

The Budget on 23 March 2011 announced a reduction of the corporation tax rate to 26% from 1 April 2011 Further changes, which are expected to be enacted separately each year, propose to reduce the tax rate by 1% per annum from 26% to 23% by 1 April 2014 These changes had not been substantively enacted at the balance sheet date and, therefore, are not recognised in these financial statements

Notes to the financial statements

For the year ended 30 September 2010

8. Tax (continued)

(c) Deferred tax asset

Deferred tax provided in the financial statements is as follows

	Provided 2010 £	*Provided 2009* £	*Unprovided 2010* £	*Unprovided 2009* £
Capital allowances in advance of depreciation	–	–	(415)	(101,721)
Provisions	–	–	34,629	723,285
Losses	180,268	–	–	–
Deferred tax asset	180,268	–	34,214	621,285

The movement in the year is as follows

	£000
At 1 January 2010	–
Credited to the profit and loss account	180,268
At 31 December 2010	180,268

9. Tangible assets

	Freehold land and buildings £	*Plant and machinery* £	*Total* £
Cost			
At 1 October 2009	2,630,571	19,901,423	22,531,994
Disposals	–	(1,847,690)	(1,847,690)
At 30 September 2010	2,630,571	18,053,733	20,684,304
Depreciation			
At 1 October 2009	2,630,571	18,997,373	21,627,944
Provided during the year	–	197,169	197,169
Disposals	–	(1,296,569)	(1,296,569)
At 30 September 2010	2,630,571	17,897,973	20,528,544
Net book value			
At 30 September 2010	–	155,760	155,760
At 1 October 2009	–	904,050	904,050

Notes to the financial statements

For the year ended 30 September 2010

10. Stocks

	2010	2009
	£	£
Work in progress	–	79,262
Raw materials and consumables	–	680,795
Finished goods and goods held for resale	1,511,670	1,950,716
	1,511,670	2,710,773

11. Debtors

	2010	2009
	£	£
Trade debtors	2,699,012	3,033,435
Amounts owed by group undertakings	1,147,039	4,636,461
Other debtors	3,116,281	1,660,950
Prepayments and accrued income	–	12,422
Deferred tax asset (note 8(c))	180,268	–
	7,142,600	9,343,268

12. Creditors: amounts falling due within one year

	2010	2009
	£	£
Bank overdraft	45	–
Trade creditors	242,709	1,207,845
Amounts owed to group undertakings	5,212,970	6,524,013
Other taxes and social security costs	260,106	148,538
Other creditors	142,337	264,337
Accruals and deferred income	337,031	421,351
	6,195,198	8,566,084

Notes to the financial statements

For the year ended 30 September 2010

13. Provisions for liabilities

	Restructuring £
At 1 October 2009	2,567,148
Utilised in the year	(2,342,585)
Increase in the year	101,527
At 30 September 2010	326,090

The above provision relates to costs that are expected to be incurred following the closure of the company's manufacturing operation in Blackburn Manufacturing ceased in September 2009 and the remaining balance of the provision now relates to the clearance of the site and ongoing costs until its disposal This is expected to be completed within one to two years of the balance sheet date

14. Deferred Government Grants

	£
Balance as at 1 October 2009	10,002
Released during the year	3,934
Balance as at 30 September 2010	6,068

15. Issued share capital

	2010		2009	
Allotted, called up and fully paid	*No*	*£*	*No*	*£*
Ordinary shares of £1 each	14,400,002	14,400,002	14,400,002	14,400,002

16. Movements on reserves

	Profit and loss account £
At 1 October 2009	(12,035,954)
Loss for the year	890,736
At 30 September 2010	(11,145,218)

17. Reconciliation of shareholders' funds

	2010 £	*2009* £
Profit for the year	890,736	213,502
Opening equity shareholders' funds	2,364,048	2,150,546
Closing equity shareholders' funds	3,254,784	2,364,048

Notes to the financial statements

For the year ended 30 September 2010

18. Contingent liabilities

As at 30 September 2010, the company's bankers had given a guarantee to HM Revenue & Customs amounting to £90,000 (2009 – £90,000) and had also given performance guarantees to third parties amounting to approximately £15,800 (2009 – £16,327)

19. Other financial commitments

As at 30 September 2010, the company had annual commitments under non-cancellable operating leases, none of which related to land and buildings, which expire as follows

	2010	*2009*
	£	*£*
Within one year	45,348	23,336
In two to five years	29,801	74,519
	75,149	97,855

20. Post balance sheet event

On 1 October 2010 the company ceased making sales to external customers with all sales made to group companies

21. Ultimate parent undertaking and controlling party

The company's parent undertaking is Voith Paper Fabrics Holdings Limited, which does not prepare group accounts

The ultimate parent undertaking and controlling party is Voith AG Copies of the consolidated financial statements of the Voith AG group are available from P O Box 2002, 89510 Heidenheim, Germany