

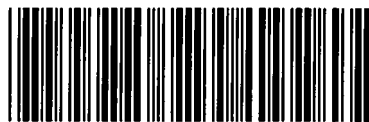
# MAHLE Engine Systems UK Limited

## Annual report and financial statements

Registered number 06080706

31 December 2017

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## **Directors and other information**

### **Directors**

H Pott  
S Ferguson

### **Independent Auditors**

PricewaterhouseCoopers LLP  
Cornwall Court  
19 Cornwall Street  
Birmingham B3 2DT

### **Bankers**

HSBC  
Level 37  
Canada Square  
London E14 5HQ

### **Solicitors**

Gregory Rowcliffe Milners  
1 Bedford Row  
London WC1R 4BZ

### **Registered Office**

2 Central Park Drive  
Central Park  
Rugby  
Warwickshire  
CV23 0WE

## Strategic report

The directors present their strategic report for the year ended 31 December 2017.

### Principal activities

The principal activity of the company is the development and manufacture of strip material, bearings and bushings for automotive use.

### Review of the business

In 2017, the company incurred a loss for the financial year of £3,077,000 (2016: loss of £3,566,000). During the year the company received a £2,000,000 capital contribution from MAHLE Industries UK Limited.

The net asset position of the company is £4,013,000 at 31 December 2017 (2016: £5,090,000).

### Operational review

During 2017 sales volumes increased significantly. However, there were major operational issues in Kilmarnock arising from the breakdown of a key machine line. A significant sum of capital expenditure was incurred at the end of 2017 to refurbish this machine.

In addition, raw material prices increased significantly during the year. Only a small portion of this cost increase was able to be passed on to customers during the year. These factors led to significant losses being incurred during the year.

In relation to the service area of the business, development projects covering several material areas including alloys and coatings progressed in maturity to support future customer needs and 10 patent families were granted for innovative developments.

### Financial review

The company uses performance monitors in understanding the development and performance of the business. This includes a range of performance measures and supply indicators as well as a range of financial measures.

### Key performance indicators

|                                   | 2017    | 2016    | Comment   |
|-----------------------------------|---------|---------|---|
| Return on Sales (ROS)             | (7.6)%  | (9.8)%  | Lower return on sales due to impact of material price increases and key machine issues.   |
| Return on Capital Employed (ROCE) | (43.0)% | (41.9)% | Reduced ROCE due to continued operating loss.   |
| Inventory Days (DSI)              | 65      | 39      | Increased inventory level due to refurbishment of a key machine at the end of the year as well as higher WIP due to increase in volume of development projects. |

## Strategic report (continued)

### Principal risks and uncertainties

The management of the business and the execution of the company's strategy are subject to a number of risks.

The key business risks and uncertainties affecting the company are considered to relate to the growth in cost of raw materials, exchange rate fluctuations (in particular the Euro and US Dollar against Pound Sterling) and the impact of competition. These are mitigated by the diversified nature of the business in terms of the strong customer market base, products and geographies.

#### Price Risk

The company is exposed to commodity price risk as a result of its operations. However, given the size of the company's operations, the costs of managing exposure to commodity price risk exceed any potential benefits. The directors will revisit the appropriateness of the policy should the company's operations change in size or nature. A minimum of three quotes are obtained prior to carrying out significant purchases.

### Financial Risk Management

#### Credit Risk

The company does not have any significant concentrations of credit risk. Customers are subjected to creditworthiness tests.

#### Liquidity Risk

The company retains sufficient cash to ensure it has sufficient funds available for operations. The company would have access to longer term funding from its ultimate parent undertaking if required.

#### Interest rate Risk

The interest charged on any overdrafts within the facility with HSBC plc is Bank of England base rate plus 1.1% for GBP, Federal Reserve base rate plus 1.1% for USD and the British Bankers Association base rate plus 1.1% for EUR for debit balances. The rate for credit balances is currently 0%.

#### Foreign exchange rate Risk

The company is exposed to some foreign exchange rate risk as a result of its operations. The company has a policy of hedging this risk and places forward contracts from time to time to manage this risk. Forward contracts placed by a related company on the net UK exposure were in place at the statement of financial position date.

On behalf of the board

H Pott  
Director



Date 19 September 2018

S Ferguson  
Director



Date 19 September 2018

## **Directors' report**

The directors present their report and the audited financial statements for the year ended 31 December 2017.

### **Directors**

The directors who served the company during the year and up to the date of signing the financial statements were as follows:

H Pott  
S Ferguson  
Dr R Paulik (resigned 31 March 2017)

Certain directors benefited from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

### **Proposed dividend**

The directors do not recommend a final dividend (2016: £nil).

### **Review of the business and principal risks and uncertainties**

The review of the business for 2017 and disclosures regarding principal risks and uncertainties are reported within the Strategic Report.

### **Future developments**

During 2018 it is anticipated that there will be a major turnaround in profitability with no repeat of the machine breakdown issue which occurred in 2017. This follows the capital expenditure incurred on this machine and also the implementation of key maintenance control procedures going forward.

The management team continue to focus on productivity and efficiency improvements and re-organisation at the Kilmarnock site with a view to maximising profits.

Work on activities away from core product applications and new business opportunities have commenced with budget allocation now growing in new business fields in support of the group dual strategy for maintaining a strong technology position in internal combustion markets whilst leveraging key competencies for alternative markets.

Manufacturing process development continued with a high focus on machines and process technology with strong built in quality orientation and a high level of component traceability capabilities.

### **Financial instruments**

The company is exposed to foreign exchange rate risk as a result of some of its operations. The company has a policy of hedging this risk using derivative financial instruments in the form of forward exchange rate contracts. Forward contracts were in place with MAHLE Industries UK Limited at the statement of financial position date.

### **Going concern**

The directors have assessed the ability of the company to continue as a going concern as part of their annual strategic review. Thus the financial statements have been prepared on a going concern basis.

### **Disabled employees**

The company gives full consideration to applications for employment from disabled persons where the candidate's particular aptitudes and abilities are consistent with adequately meeting the requirements of the job. Opportunities are available to disabled employees for training, career development and promotion. Where existing employees become disabled, it is the group's policy to provide continuing employment wherever practicable in the same or an alternative position and to provide appropriate training to achieve this aim.

## Directors' report (continued)

### Employee involvement

The company operates a framework for employee information and consultation which complies with the requirements of the Information and Consultation of Employees Regulations 2004. In addition the company recognises and consults with a Trade Union on a wide range of issues. There is also a Health and Safety Committee with employee representatives.

During the year, regular meetings are held between local management and employees to allow a free flow of information and ideas. In addition the company operates a Suggestion and Innovation scheme to encourage employee involvement and a company intranet with wide ranging information.

The group also publishes a quarterly UK magazine and encourages local content.

### Disclosure of information to the auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware; and each director has taken all the steps that ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

### Re-appointment of auditors

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and PricewaterhouseCoopers LLP will therefore continue in office.

On behalf of the board

H Pott  
Director



Date 19 September 2018

S Ferguson  
Director



Date 19 September 2018

## Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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.

The directors 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.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the board

**H Pott**  
Director



Date 19 September 2018

**S Ferguson**  
Director



Date 19 September 2018



## **Independent auditors' report to the members of MAHLE Engine Systems UK Limited**

### **Report on the audit of the financial statements**

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#### **Opinion**

In our opinion, MAHLE Engine Systems UK Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and financial statements (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2017; the statement of comprehensive income for the year then ended, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Independence*

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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#### **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

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#### **Reporting on other information**

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

## **Independent auditors' report to the members of MAHLE Engine Systems UK Limited (continued)**

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### **Reporting on other information (continued)**

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

#### *Strategic Report and Directors' Report*

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

### **Responsibilities for the financial statements and the audit**

#### *Responsibilities of the directors for the financial statements*

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements set out on page 6, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

#### *Auditors' responsibilities for the audit of the financial statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

## **Independent auditors' report to the members of MAHLE Engine Systems UK Limited (continued)**

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### *Use of this report*

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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### **Other required reporting**

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#### **Companies Act 2006 exception reporting**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Matthew Walker (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Birmingham

19 September 2018

## Statement of comprehensive income

*for the year ended 31 December 2017*

|  | Note | 2017<br>£000   | 2016<br>£000   |
|--|------|----------------|----------------|
| Turnover                                     | 2    | 40,732         | 36,323         |
| Cost of sales                                |      | (34,275)       | (32,255)       |
| <b>Gross profit</b>                          |      | <b>6,457</b>   | <b>4,068</b>   |
| Distribution costs                           |      | (2,075)        | (1,509)        |
| Administrative expenses                      |      | (6,900)        | (5,585)        |
| <b>Operating loss</b>                        | 3    | <b>(2,518)</b> | <b>(3,026)</b> |
| Interest payable and similar expenses        | 6    | (252)          | (276)          |
| <b>Loss before taxation</b>                  |      | <b>(2,770)</b> | <b>(3,302)</b> |
| Tax on loss                                  | 7    | (307)          | (264)          |
| <b>Loss for the financial year</b>           |      | <b>(3,077)</b> | <b>(3,566)</b> |
| <b>Total comprehensive loss for the year</b> |      | <b>(3,077)</b> | <b>(3,566)</b> |

There are no items of Other Comprehensive income in the current or prior year.

The above results are derived wholly from continuing operations.

## Statement of financial position

as at 31 December 2017

|   | Note  | 2017<br>£000       | £000     | 2016<br>£000       | £000     |
|---|-------|--------------------|----------|--------------------|----------|
| <b>Fixed assets</b>                                     |       |                    |          |                    |          |
| Intangible assets                                       |       |                    |          |                    |          |
| Negative goodwill                                       | 8     | (171)              |          | (233)              |          |
|   |       |                    |          |                    |          |
| Tangible assets   | 9     | 8,271              |          | 7,292              |          |
|   |       |                    | 8,100    |                    | 7,059    |
| <b>Current assets</b>                                   |       |                    |          |                    |          |
| Stocks  | 10    | 6,060              |          | 3,454              |          |
| Debtors   | 11    | 8,119              |          | 6,888              |          |
| Cash at bank and in hand                                |       | 1                  |          | 2                  |          |
|   |       |                    |          |                    |          |
| Creditors: amounts falling due within one year          | 12    | 14,180<br>(16,430) |          | 10,344<br>(10,173) |          |
| <b>Net current (liabilities) / assets</b>               |       |                    | (2,250)  |                    | 171      |
|   |       |                    |          |                    |          |
| <b>Total assets less current liabilities</b>            |       |                    | 5,850    |                    | 7,230    |
|   |       |                    |          |                    |          |
| Creditors: amounts falling due after more than one year | 13    | (27)               |          | (65)               |          |
| Provisions for liabilities                              | 14/15 | (1,810)            |          | (2,075)            |          |
|   |       |                    | (1,837)  |                    | (2,140)  |
| <b>Net assets</b>                                       |       |                    | 4,013    |                    | 5,090    |
|   |       |                    |          |                    |          |
| <b>Capital and reserves</b>                             |       |                    |          |                    |          |
| Called up share capital                                 | 16    |                    | 10,879   |                    | 10,879   |
| Capital contribution reserve                            |       |                    | 33,750   |                    | 31,750   |
| Retained earnings                                       |       |                    | (40,616) |                    | (37,539) |
| <b>Total equity</b>                                     |       |                    | 4,013    |                    | 5,090    |

These financial statements were approved by the board of directors on 19 September 2018 and were signed on its behalf by:

H Pott  
Director



S Ferguson  
Director



Company registered number: 06080706

## Statement of changes in equity

for the year ended 31 December 2017

|                                    | Called up<br>share capital<br>£000 | Capital<br>contribution<br>reserve<br>£000 | Retained<br>earnings<br>£000 | Total<br>equity<br>£000 |
|------------------------------------|------------------------------------|--|------------------------------|-------------------------|
| Balance at 1 January 2016          | 10,879                             | 26,750                                     | (33,973)                     | 3,656                   |
| Loss for the financial year        | -                                  | -  | (3,566)                      | (3,566)                 |
| Capital contribution               | -                                  | 5,000                                      | -                            | 5,000                   |
| <b>Balance at 31 December 2016</b> | <b>10,879</b>                      | <b>31,750</b>                              | <b>(37,539)</b>              | <b>5,090</b>            |
| Balance at 1 January 2017          | 10,879                             | 31,750                                     | (37,539)                     | 5,090                   |
| Loss for the financial year        | -                                  | -  | (3,077)                      | (3,077)                 |
| Capital contribution               | -                                  | 2,000                                      | -                            | 2,000                   |
| <b>Balance at 31 December 2017</b> | <b>10,879</b>                      | <b>33,750</b>                              | <b>(40,616)</b>              | <b>4,013</b>            |

## Notes to the financial statements

### 1 Accounting policies

MAHLE Engine Systems UK Limited (the "Company") is a company limited by shares and incorporated and domiciled in the UK.

These financial statements were prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland ("FRS 102") as issued in August 2014, on a going concern basis, under the historical cost convention, except as disclosed in the accounting policies below and in accordance with the applicable accounting standards in the United Kingdom and the Companies Act 2006.

The functional and presentational currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

The Company's ultimate parent undertaking, MAHLE GmbH includes the Company in its consolidated financial statements. The consolidated financial statements of MAHLE GmbH are prepared in accordance with German GAAP and are available to the public and may be obtained from MAHLE GmbH, Pragstrasse 26-46, 70376 Stuttgart, Germany. In these financial statements, the company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Cash Flow Statement and related notes (FRS102 paragraph 1.12(b)); and
- Key Management Personnel compensation (FRS102 paragraph 33.7).

#### 1.1 Foreign currency

Transactions in foreign currencies are initially recorded in the entity's functional currency by applying the 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 statement of financial position date. All differences are taken to the statement of comprehensive income.

#### 1.2 Financial instruments

The company has chosen to adopt the sections 11 and 12 of FRS 102 in respect of financial instruments.

##### 1.2.1 Basic financial instruments

###### *Trade and other debtors / creditors*

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors.

###### *Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents.

## Notes to the financial statements *(continued)*

### **1 Accounting policies *(continued)***

#### **1.2 Financial instruments *(continued)***

##### **1.2.2 Other financial instruments**

###### *Derivative instruments*

The company uses forward foreign currency contracts to reduce exposure to foreign exchange rates.

Derivative financial instruments are initially measured at fair value on the date on which a derivative contract is entered into and are subsequently measured at fair value through profit or loss. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The fair value of the forward currency contracts is calculated by reference to current forward exchange contracts with similar maturity profiles.

##### **1.2.3 Offsetting**

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

#### **1.3 Intangible assets**

Intangible assets acquired separately from a business are capitalised at cost. Intangible assets acquired as part of an acquisition of a business are capitalised separately from goodwill if the fair value can be measured reliably on initial recognition, subject to the constraint that, unless the asset has a readily ascertainable market value, the fair value is limited to an amount that does not create or increase any negative goodwill arising on the acquisition. Intangible assets, excluding development costs, created within the business are not capitalised and expenditure is charged against profits in the year in which it is incurred.

Intangible assets are amortised on a straight line basis over their estimated useful lives up to a maximum of 20 years. The carrying value of intangible assets is reviewed for impairment at the end of the first full year following acquisition and in other years if events or changes in circumstances indicate the carrying value may not be recoverable.

###### *Negative goodwill*

Where the fair value of the separable net assets exceeds the fair value of the consideration for an acquired undertaking the difference is treated as negative goodwill and is capitalised and amortised through the statement of comprehensive income in the period in which the non-monetary assets acquired are recovered. In the case of fixed assets this is the period over which they are depreciated, and in the case of current assets, the period over which they are sold or otherwise realised.

#### **1.4 Tangible assets**

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets, for example land is treated separately from buildings.

The company assesses at each reporting date whether tangible fixed assets (including those leased under a finance lease) are impaired.

Depreciation is charged to the statement of comprehensive income on a straight-line basis over the useful economic lives of each part of an item of tangible fixed assets. Leased assets are depreciated over a shorter of the lease term and their useful lives. The useful economic lives are as follows:

- Freehold land nil
- Freehold buildings 2% to 5% straight-line
- Plant and machinery 10% to 20% straight-line
- Office and other equipment 20% straight-line



## Notes to the financial statements *(continued)*

### **1 Accounting policies *(continued)***

#### **1.4 Tangible assets *(continued)***

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the company expects to consume an asset's future economic benefits.

#### **1.5 Stocks**

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the stocks, production or conversion costs and other costs in bringing them to their existing location and condition. In the case of manufactured stocks and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

#### **1.6 Research and development**

Research and development costs are written off in the year in which they are incurred.

#### **1.7 Exceptional items**

The company classifies certain one-off charges or credit that have a material impact on the company's financial results as 'exceptional' items. These are disclosed separately to provide further understanding of the financial performance of the company.

#### **1.8 Employee benefits**

##### *Defined contribution plans and other long term employee benefits*

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the statement of comprehensive income in the periods during which services are rendered by employees.

#### **1.9 Provisions**

A provision is recognised in the statement of financial position when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

In particular restructuring provisions are recognised when the Company has a detailed, formal plan for the restructuring and has raised a valid expectation in those affected by either starting to implement the plan or announcing its main features to those affected and therefore has a legal or constructive obligation to carry out the restructuring.

#### **1.10 Turnover**

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.

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.

## Notes to the financial statements *(continued)*

### **1 Accounting policies *(continued)***

#### **1.11 Expenses**

##### *Operating lease*

Payments made under operating leases are recognised in the statement of comprehensive income on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in the statement of comprehensive income over the term of the lease as an integral part of the total lease expense.

##### *Interest receivable and Interest payable*

Interest income and interest payable are recognised in the statement of comprehensive income as they occur and any accrual is calculated using the effective interest method.

#### **1.12 Taxation**

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which 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. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the statement of financial position date. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

#### **1.13 Going concern**

The company meets its day-to-day working capital requirements through its bank facilities. The company participates in a UK cash pooling arrangement with other related UK companies, guaranteed by the ultimate parent undertaking. In addition it has access to longer term funding from the ultimate parent undertaking if required. The company's forecasts and projections, taking account of reasonably possible changes in performance, show that the company should be able to operate within the level of its current facilities. The directors have reasonable expectations that the company has adequate resources to continue in operational existence for the foreseeable future. The company therefore continues to adopt the going concern basis in preparing its financial statements.

## Notes to the financial statements *(continued)*

### **1 Accounting policies *(continued)***

#### **1.14 Share capital and distributions to equity holders**

Ordinary shares are classified as equity. Dividends and other distributions to company's shareholders are recognised as a liability in the financial statements in the period in which the dividends and other distributions are approved by the company's shareholders. These amounts are recognised in the statement of changes in equity.

##### *Capital Contribution Reserve*

A contribution by the parent company to the equity capital of the Company is shown within the capital contribution reserve.

#### **1.15 Related party transactions**

The company discloses transactions with related parties which are not wholly owned by the same group. It does not disclose transactions with members of the same group that are wholly owned.

#### **1.16 Critical accounting judgements and estimation uncertainty**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are listed below.

##### *Useful economic lives of tangible assets (note 9)*

The annual depreciation charge for tangible assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. See note 9 for the carrying amount of the property, plant and equipment and note 1.4 for the useful economic lives of each class of assets.

##### *Inventory provisioning (note 10)*

The company is subject to changing consumer demands, trends and competition. As a result it is necessary to consider the recoverability of the cost of inventory and the associated provisioning required. When calculating the inventory provision, management considers the nature and condition of the inventory, as well as applying assumptions around anticipated saleability of finished goods. See note 10 for the carrying amount of the inventory and associated provision.

##### *Impairment of debtors (note 11)*

The company makes an estimate of the recoverable value of trade and other debtors. When assessing impairment, management considers factors including the ageing profile of the debtors and historical experience. See note 11 for the carrying amount of debtors and associated impairment provision.

##### *Accruals and deferred income (note 12)*

Accruals are established for short-term liabilities that are known and for those risks that are identifiable at the statement of financial position date. The values of the accruals are estimated on the basis of experience. Examples include utility charges, personnel costs, commissions and credit notes due to customers.

##### *Provisions (note 15)*

Provisions are made for environmental and restructuring obligations. These estimates required management's best estimate of costs that will be incurred based on legislative and contractual requirements. See note 15 for the carrying amount of provisions

## Notes to the financial statements (continued)

### 2 Turnover

Turnover represents the invoiced value of sales (excluding value added tax and trade discounts) of goods and services in the normal course of business.

An analysis of turnover by class of business and geographical market is given below:

|                                   | 2017<br>£000  | 2016<br>£000  |
|-----------------------------------|---------------|---------------|
| Sale of goods                     | 33,385        | 30,175        |
| Sale of services                  | 7,347         | 6,148         |
| Total turnover                    | <u>40,732</u> | <u>36,323</u> |
|                                   | 2017<br>£000  | 2016<br>£000  |
| United Kingdom                    | 2,988         | 2,774         |
| Europe (excluding United Kingdom) | 23,333        | 20,380        |
| USA                               | 3,935         | 4,123         |
| Rest of the world                 | 10,476        | 9,046         |
|                                   | <u>40,732</u> | <u>36,323</u> |

As noted above, the company has customers in different geographical markets however the turnover is originated in the UK.

### 3 Operating loss

This is stated after charging/(crediting):

|   | 2017<br>£000 | 2016<br>£000 |
|---|--------------|--------------|
| Fees payable to the Company's auditor                             |              |              |
| - Audit   | 36           | 43           |
| - Other services  | 9            | 6            |
| Depreciation of tangible fixed assets (note 9)                    | 737          | 934          |
| Release of negative goodwill against non-monetary assets (note 8) | (62)         | (62)         |
| Foreign exchange gain   | 164          | 329          |
| Research and development expenditure                              | 6,540        | 5,960        |
| Operating lease rentals – other                                   | 234          | 221          |
| Environmental provision reversal (note 15)                        | (9)          | (333)        |
| Restructuring provision movement (note 15)                        | (7)          | (49)         |
| Loss on disposal of tangible asset                                | -            | 199          |

## Notes to the financial statements (continued)

### 4 Staff numbers and costs

The average monthly number of persons employed by the Company (including directors) during the year, analysed by category, was as follows:

|                          | 2017       | 2016       |
|--------------------------|------------|------------|
| Production               | 188        | 203        |
| Selling and distribution | 13         | 12         |
| Administration           | 20         | 21         |
| Development              | 51         | 49         |
|                          | <b>272</b> | <b>285</b> |

The aggregate payroll costs of these persons were as follows:

|   | 2017<br>£000  | 2016<br>£000  |
|---|---------------|---------------|
| Wages and salaries                          | 10,460        | 9,359         |
| Social security costs                       | 932           | 936           |
| Contributions to defined contribution plans | 462           | 464           |
|   | <b>11,854</b> | <b>10,759</b> |

### 5 Directors' remuneration

|                                 | 2017<br>£000 | 2016<br>£000 |
|---------------------------------|--------------|--------------|
| Directors' remuneration         | 6            | 6            |
| Compensation for loss of office | -            | 1            |
|                                 | <b>1</b>     | <b>7</b>     |

All the remuneration and pension contributions are paid by another group company and this expense is then allocated between a number of group companies for which that Director is responsible.

Two (2016: three) directors of the company who served during the year were employed by other group companies within the MAHLE Group and did not receive emoluments from MAHLE Engine Systems UK Limited.

H Pott is employed by MAHLE International GmbH and R Paulik is employed by MAHLE GmbH. These directors did not receive any emoluments from any other party specifically for services as a director of MAHLE Engine Systems UK Limited and it is not possible to make an accurate apportionment of the emoluments received from other group companies in respect of their services to MAHLE Engine Systems UK Limited. Accordingly these financial statements include £nil emoluments for these directors (2016: £nil).

Retirement contributions were accruing under a defined contribution scheme.

## Notes to the financial statements (continued)

### 6 Interest payable and similar expenses

|   | 2017<br>£000 | 2016<br>£000 |
|---|--------------|--------------|
| Interest payable – group companies          | 142          | 187          |
| Finance charge on provision                 | 110          | 89           |
|   | <hr/>        | <hr/>        |
| Total interest payable and similar expenses | 252          | 276          |
|   | <hr/>        | <hr/>        |

### 7 Tax on loss

Total tax expense recognised in the statement of comprehensive income

|                                    | 2017<br>£000 | £000  | 2016<br>£000 | £000  |
|------------------------------------|--------------|-------|--------------|-------|
| <i>Current tax</i>                 |              |       |              |       |
| Current tax on income for the year | 307          |       | 264          |       |
|                                    | <hr/>        |       | <hr/>        |       |
| Total current tax                  |              | 307   |              | 264   |
|                                    |              | <hr/> |              | <hr/> |
| Total tax                          |              | 307   |              | 264   |
|                                    |              | <hr/> |              | <hr/> |

|   | £000        | £000         | 2017<br>£000 | £000        | £000         | 2016<br>£000 |
|---|-------------|--------------|--------------|-------------|--------------|--------------|
|   | Current tax | Deferred tax | Total tax    | Current tax | Deferred tax | Total tax    |
| Recognised in the statement of comprehensive income | 307         | -            | 307          | 264         | -            | 264          |
|   | <hr/>       | <hr/>        | <hr/>        | <hr/>       | <hr/>        | <hr/>        |
| Total tax   | 307         | -            | 307          | 264         | -            | 264          |
|   | <hr/>       | <hr/>        | <hr/>        | <hr/>       | <hr/>        | <hr/>        |

## Notes to the financial statements (continued)

### 7 Tax on loss (continued)

Analysis of current tax recognised in the statement of comprehensive income

|   | 2017<br>£000 | 2016<br>£000 |
|---|--------------|--------------|
| Foreign tax   | 307          | 264          |
| Total tax recognised in the statement of comprehensive income | 307          | 264          |

### Reconciliation of effective tax rate

The UK corporation tax rates substantively enacted at the statement of financial position date are 19% from 1 April 2017 and 17% from 1 April 2020.

Deferred tax has been recognised in the financial statements at the rate at which it is expected to reverse.

|   | 2017<br>£000 | 2016<br>£000 |
|---|--------------|--------------|
| Loss for the year   | (3,077)      | (3,566)      |
| Total tax expense   | 307          | 264          |
| Loss excluding taxation                                     | (2,770)      | (3,302)      |
| Tax using the UK corporation tax rate of 19.25% (2016: 20%) | (533)        | (660)        |
| Non-deductible expenses                                     | 94           | 118          |
| Group relief surrendered                                    | 648          | -            |
| Non UK income tax   | 307          | 264          |
| Movement in unrecognised deferred tax                       | (204)        | 542          |
| Reduction in tax rate on deferred tax balances              | (5)          | -            |
| Total tax expense included in profit or loss                | 307          | 264          |

## Notes to the financial statements (continued)

### 8 Intangible assets and goodwill

|  | Patents and<br>trademarks<br>£000 | Negative<br>goodwill<br>£000 | Total<br>£000     |
|--|-----------------------------------|------------------------------|-------------------|
| <b>Cost</b>                                    |                                   |                              |                   |
| Balance at 1 January 2017 and 31 December 2017 | 762                               | (4,397)                      | (3,635)           |
|  | <u>          </u>                 | <u>          </u>            | <u>          </u> |
| <b>Accumulated amortisation and impairment</b> |                                   |                              |                   |
| Balance at 1 January 2017                      | (762)                             | 4,164                        | 3,402             |
| Amortisation for the year                      | -                                 | 62                           | 62                |
|  | <u>          </u>                 | <u>          </u>            | <u>          </u> |
| Balance at 31 December 2017                    | (762)                             | 4,226                        | 3,464             |
|  | <u>          </u>                 | <u>          </u>            | <u>          </u> |
| <b>Net book value</b>                          |                                   |                              |                   |
| At 31 December 2016                            | -                                 | (233)                        | (233)             |
|  | <u>          </u>                 | <u>          </u>            | <u>          </u> |
| <b>At 31 December 2017</b>                     | -                                 | (171)                        | (171)             |
|  | <u>          </u>                 | <u>          </u>            | <u>          </u> |

#### Amortisation and impairment charge

The amortisation, impairment charge and impairment reversals are recognised in the following line items in the statement of comprehensive income:

|                         | 2017<br>£000      | 2016<br>£000      |
|-------------------------|-------------------|-------------------|
| Administrative expenses | 62                | 62                |
|                         | <u>          </u> | <u>          </u> |
|                         | 62                | 62                |
|                         | <u>          </u> | <u>          </u> |



## Notes to the financial statements (continued)

### 9 Tangible assets

|  | Land and<br>buildings<br>£000 | Plant and<br>machinery<br>£000 | Office and<br>other<br>equipment<br>£000 | Under<br>construction<br>£000 | Total<br>£000 |
|--|-------------------------------|--------------------------------|--|-------------------------------|---------------|
| <b>Cost</b>                                    |                               |                                |  |                               |               |
| Balance at 1 January 2017                      | 5,471                         | 8,314                          | 365                                      | 988                           | 15,138        |
| Acquisitions                                   | -                             | 654                            | 10                                       | 1,052                         | 1,716         |
| Disposals                                      | -                             | -                              | -  | -                             | -             |
| Transfers                                      | -                             | 861                            | 10                                       | (871)                         | -             |
|  | <hr/>                         | <hr/>                          | <hr/>                                    | <hr/>                         | <hr/>         |
| Balance at 31 December 2017                    | 5,471                         | 9,829                          | 385                                      | 1,169                         | 16,854        |
|  | <hr/>                         | <hr/>                          | <hr/>                                    | <hr/>                         | <hr/>         |
| <b>Accumulated depreciation and impairment</b> |                               |                                |  |                               |               |
| Balance at 1 January 2017                      | (1,422)                       | (6,066)                        | (358)                                    | -                             | (7,846)       |
| Depreciation charge for the year               | (149)                         | (580)                          | (8)                                      | -                             | (737)         |
| Disposals                                      | -                             | -                              | -  | -                             | -             |
|  | <hr/>                         | <hr/>                          | <hr/>                                    | <hr/>                         | <hr/>         |
| Balance at 31 December 2017                    | (1,571)                       | (6,646)                        | (366)                                    | -                             | (8,583)       |
|  | <hr/>                         | <hr/>                          | <hr/>                                    | <hr/>                         | <hr/>         |
| <b>Net book value</b>                          |                               |                                |  |                               |               |
| At 31 December 2016                            | 4,049                         | 2,248                          | 7  | 988                           | 7,292         |
|  | <hr/>                         | <hr/>                          | <hr/>                                    | <hr/>                         | <hr/>         |
| At 31 December 2017                            | 3,900                         | 3,183                          | 19                                       | 1,169                         | 8,271         |
|  | <hr/>                         | <hr/>                          | <hr/>                                    | <hr/>                         | <hr/>         |

Included within the net book value of freehold land and buildings is £2,519,000 (2016: £2,519,000) of land which is not depreciated.

### 10 Stocks

|                               | 2017  | 2016  |
|-------------------------------|-------|-------|
|                               | £000  | £000  |
| Raw materials and consumables | 717   | 550   |
| Work in progress              | 2,796 | 1,336 |
| Finished goods                | 2,547 | 1,568 |
|                               | <hr/> | <hr/> |
|                               | 6,060 | 3,454 |
|                               | <hr/> | <hr/> |

There is no material difference between the value of stocks held in the statement of financial position and the replacement cost.

Raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales in the year amounted to £14,223,000 (2016: £12,872,000). There is no significant difference between the replacement cost of stock and their carrying amounts.

Inventories are stated after provisions for impairment of £903,000 (2016: £1,063,000).

## Notes to the financial statements (continued)

### 11 Debtors

|  | 2017<br>£000 | 2016<br>£000 |
|--|--------------|--------------|
| Trade debtors                              | 679          | 799          |
| Amounts owed by group undertakings – trade | 6,292        | 4,888        |
| Other debtors                              | 929          | 529          |
| Deferred tax assets (see note 14)          | 10           | 75           |
| Corporation tax                            | 22           | -            |
| Derivative financial instruments (note 17) | 53           | 390          |
| Prepayments and accrued income             | 134          | 207          |
|  | <u>8,119</u> | <u>6,888</u> |
| Due within one year                        | 8,106        | 6,860        |
| Due after more than one year               | 13           | 28           |
|  | <u>8,119</u> | <u>6,888</u> |

Trade debtors are stated after provisions for impairment of £17,000 (2016: £72,000).

Amounts owed by group undertakings – trade, are unsecured, interest free, have no fixed date of repayment and repayable on demand.

### 12 Creditors: amounts falling due within one year

|  | 2017<br>£000  | 2016<br>£000  |
|--|---------------|---------------|
| Payments received on account               | 2,028         | 821           |
| Trade creditors                            | 2,445         | 2,397         |
| Amounts owed to group undertakings – trade | 1,305         | 872           |
| Amounts owed to group undertakings – loan  | 7,608         | 3,896         |
| Taxation and social security               | 358           | 336           |
| Derivative financial instruments (note 17) | 118           | 553           |
| Accruals and deferred income               | 2,568         | 1,298         |
|  | <u>16,430</u> | <u>10,173</u> |

Amounts owed to group undertakings - trade, are unsecured, interest free, have no fixed date of repayment and repayable on demand.

Amounts owed to group undertakings - loan, is part of a multi-currency net-nil facility and cash pooling arrangement with HSBC plc. The other participants in these arrangements are MAHLE Filter Systems UK Limited, MAHLE Industries UK Limited, MAHLE Powertrain Limited and MAHLE Aftermarket Limited.

## Notes to the financial statements (continued)

### 13 Creditors: amounts falling due after more than one year

|  | 2017<br>£000 | 2016<br>£000 |
|--|--------------|--------------|
| Derivative financial instruments (note 17) | 27           | 65           |
|  | <u>27</u>    | <u>65</u>    |

### 14 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

|                                | Assets<br>2017<br>£000 | 2016<br>£000 | Liabilities<br>2017<br>£000 | 2016<br>£000 | Net<br>2017<br>£000 | 2016<br>£000 |
|--------------------------------|------------------------|--------------|-----------------------------|--------------|---------------------|--------------|
| Provisions                     | 10                     | 75           |                             |              | 10                  | 75           |
| Derivatives                    | -                      | -            | (10)                        | (75)         | (10)                | (75)         |
|                                | <u>10</u>              | <u>75</u>    | <u>(10)</u>                 | <u>(75)</u>  | <u>-</u>            | <u>-</u>     |
| Tax assets / (liabilities)     | 10                     | 75           | (10)                        | (75)         | -                   | -            |
|                                | <u>10</u>              | <u>75</u>    | <u>(10)</u>                 | <u>(75)</u>  | <u>-</u>            | <u>-</u>     |
| Net tax assets / (liabilities) | 10                     | 75           | (10)                        | (75)         | -                   | -            |
|                                | <u>10</u>              | <u>75</u>    | <u>(10)</u>                 | <u>(75)</u>  | <u>-</u>            | <u>-</u>     |

The following further deferred tax assets have not been recognised due to the uncertainty of their recovery in the foreseeable future. These potential deferred tax assets would be deemed recoverable in the event that sufficient taxable profits are generated.

|                                  | 2017<br>£000 | 2016<br>£000 |
|----------------------------------|--------------|--------------|
| Accelerated capital allowances   | 811          | 986          |
| Short term timing differences    | 626          | 685          |
| Tax losses carried forward       | 3,429        | 3,463        |
|                                  | <u>4,866</u> | <u>5,134</u> |
| Unrecognised deferred tax assets | 4,866        | 5,134        |

The net reversal of deferred tax assets and liabilities expected to occur in the next reporting period is nil.

## Notes to the financial statements (continued)

### 15 Provisions for liabilities

|                                     | Environmental<br>£000 | Restructuring<br>£000 | Deferred Tax<br>£000 | Total<br>£000 |
|-------------------------------------|-----------------------|-----------------------|----------------------|---------------|
| Balance at 1 January 2017           | 1,837                 | 163                   | 75                   | 2,075         |
| Provisions made during the year     | -                     | -                     | 10                   | 10            |
| Provisions used during the year     | (138)                 | (156)                 | -                    | (294)         |
| Provisions reversed during the year | (9)                   | (7)                   | (75)                 | (91)          |
| Unwind of discount                  | 110                   | -                     | -                    | 110           |
| <b>Balance at 31 December 2017</b>  | <b>1,800</b>          | <b>0</b>              | <b>10</b>            | <b>1,810</b>  |

The environmental provision is in relation to the monitoring of ground water contamination and the rectification of known asbestos contamination throughout the Kilmarnock site and is expected to be spent over the next four years.

### 16 Called up share capital

|   | 2017<br>£000  | 2016<br>£000  |
|---|---------------|---------------|
| <i>Allotted, called up and fully paid</i>               |               |               |
| 10,879,357(2016: 10,879,357) ordinary shares of £1 each | 10,879        | 10,879        |
|   | <b>10,879</b> | <b>10,879</b> |
| Shares classified in shareholders' funds                | 10,879        | 10,879        |
|   | <b>10,879</b> | <b>10,879</b> |

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

## Notes to the financial statements (continued)

### 17 Financial instruments

The company has the following financial instruments:

|   | 2017<br>£000 | 2016<br>£000 |
|---|--------------|--------------|
| Financial assets at fair value through profit or loss                 |              |              |
| - Derivative financial instruments                                    | 53           | 390          |
| Financial assets that are debt instruments measured at amortised cost |              |              |
| - Trade debtors   | 679          | 799          |
| - Amounts owed by group undertakings                                  | 6,292        | 4,888        |
| - Other debtors   | 929          | 529          |
|   | 7,900        | 6,216        |
| Financial liabilities measured at fair value through profit or loss   |              |              |
| - Derivative financial instruments                                    | 145          | 618          |
| Financial liabilities measured at amortised cost                      |              |              |
| - Payments received on account for contract work                      | 2,028        | 821          |
| - Trade creditors   | 2,445        | 2,397        |
| - Amounts owed to group undertakings                                  | 8,913        | 4,768        |
| - Accruals  | 2,568        | 1,298        |
|   | 15,954       | 9,284        |

#### Derivative financial instruments

The company enters into forward foreign currency contracts to mitigate the exchange rate risk for foreign currency payables and receivables. At 31 December 2017, the outstanding contracts all mature within 23 months of the year end. The company committed to buy \$152,000 and sell €6,660,000 and pay/receive a fixed sterling amount.

The fair value of the forward currency contracts is calculated by reference to current forward exchange contracts with similar maturity profiles. The key assumptions used in valuing the derivatives are the forward exchange rates for GBP:EUR and GBP:USD.

## Notes to the financial statements *(continued)*

### 18 Operating leases

Non-cancellable operating lease rentals are payable as follows:

|                            | 2017<br>£000 | 2016<br>£000 |
|----------------------------|--------------|--------------|
| Less than one year         | 66           | 60           |
| Between one and five years | 96           | 143          |
|                            | <hr/> 162    | <hr/> 203    |
|                            | <hr/> <hr/>  | <hr/> <hr/>  |

### 19 Commitments

The Company contractual commitments to purchase tangible fixed assets at the year-end were £612,000 (2016: £699,000).

### 20 Related parties

During the year, the company sold goods and research and development services to MAHLE Metal Leve S.A. which is 70% owned by MAHLE GmbH. At the year end, £376,000 (2016: £161,000) was outstanding and included in Debtors. The receivable is unsecured and due in 60 days. At the year end the company had also received from MAHLE Metal Leve S.A. £272,000 (2016: £246,000) included in Payments on account.

During 2017, the company also purchased services from MAHLE Metal Leve S.A. At the year end, £26,000 (2016: £24,000) was outstanding and included in Creditors. The payable is unsecured and due in 60 days.

The company is exempt from disclosing other related party transactions as they are with other companies that are wholly owned within the Group.

### 21 Ultimate parent company and parent company of larger group

The immediate parent Company is MAHLE Industries UK Limited which is incorporated in Great Britain and registered in England and Wales.

The Company's ultimate parent Company and controlling party is MAHLE GmbH, a Company incorporated in Germany. Copies of the ultimate parent's group financial statements may be obtained from MAHLE GmbH, Pragstrasse 26-46, 70376 Stuttgart, Germany. MAHLE GmbH is also the smallest and largest Company in which MAHLE Engine Systems UK Limited is consolidated.