Mitsubishi Hitachi Power Systems Europe Ltd

Report and Financial Statements

31 December 2013

THURSDAY
A3J3SVYW
A22 23/10/2014 #12
COMPANIES HOUSE

Directors
Y Hanasawa
S Hoshi
K Sato
K Hasegawa

Secretary
Y Imasaki
T Kitani

Auditors
Ernst & Young LLP
1 More London Place
London SE1 2AF

Bankers
National Westminster Bank Plc
135 Bishopsgate
London EC2M 3UR

The Bank of Tokyo-Mitsubishi UFJ Limited
Ropemaker Place
25 Ropemaker Street
London EC2Y 9AN

Citibank
Citigroup centre
Canada Square
Canary Wharf
London E14 5LB

Solicitors
Field Fisher Waterhouse
41 Vine Street
London EC3N 2AA

Registered Office
20 North Audley Street
London W1K 6WE

Registered No. 06393002

Strategic Report

Results

The loss for the year before taxation amounted to £24m (2012 – profit of £nil).

Principal activity and review of the business

The principal activity of the company and the group is the provision of sales, after-sales service of Hot Gas Path Parts (HGPP), full range field service and Long Term Service Agreement to conventional and gas power plants in Europe, the Middle East and Africa (EMEA).

The group continued to operate offices in United Kingdom, Italy, Ireland, Austria, Turkey, Netherlands, Spain, Belgium, Egypt and Romania.

The group's EMEA income realised on its principal activity decreased by £39m (22%) to £138m in this financial year. The reduction in income is attributed to the delivery of LTSA initial spare parts of LTSA contracts won in 2012 which constitute a significant portion of the maintenance of power stations. Group income generated from normal operation of LTSA contracts were in line with 2012.

The group loss of £24m realised is attributed to the impairment of goodwill and other intangibles (£11.8m), decrease in gross margins and the reorganisation of Maintenance Partner N.V business activity to steer the company to a sustainable level of activity. Gross profit margin in the financial year dropped to 16% from 24%, mainly due to higher contribution generated on ISP sales in 2012 coupled with MP's closure of its Moroccan division and lower sales in its Dutch market following the restructuring of its operations in EU.

The group transferred its offshore wind turbine and marine diesel divisions including Artemis Intelligent Power to Mitsubishi Heavy Industries Ltd in 2013 in accordance with agreement between Mitsubishi Heavy Industries Ltd and Hitachi Ltd to integrate business on thermal power generation systems and jointly manage these operations..

MHPS Engineering Vienna GmbH, in Austria contributed 16% to the group's total revenue. The Austrian subsidiary is aiming to be the prime contractor of "Engineering, Procurement and Construction" and increased its engineering, project management and procurement capability during the year.

Principal risks and uncertainties

The group has identified the principal risks that it faces as:

Credit risk

The group's principal financial assets are cash and cash equivalents and trade and other receivables.

The group's credit risk is primarily attributable to its trade receivables. In order to manage credit risk the group performs an individual risk assessment based upon independent credit references, financial position, past experiences and other factors to incorporate the latest developments and qualitative information.

For maintaining the relationships with customers, the group also strives to work in partnership with key distributors to deliver the products required whilst through the use of bank guarantees, trade insurance and payments in advance attempting to minimise the risk of being unable to recover a debt.

Liquidity risk

The group's business activities, together with factors likely to affect its future development, performance and position are disclosed in this director's report. The financial position of the group and its cash flows are presented in the balance sheet and statement of cash flows.

The group's management oversee the operations of its subsidiaries and their funding requirements. With the exception of one of a subsidiary who used some bank loans, overdraft and finance leases, the group's funding is from available cash resources. The borrowings and the nature thereof are disclosed in notes 23 and 25.

Excess cash is maintained in the current account or short-term deposits which carry no financial risk.

Strategic Report

The group has considerable financial resources together with long-term contracts with a number of customers. Therefore management do not consider that there is any particular liquidity risk facing the group.

Principal risks and uncertainties (continued)

Foreign currency risk

In addition to Sterling which is the main functional currency of the entities within the group, the group buys and sells significantly in two other currencies (Euro and JPY). The group minimises the foreign currency risk in three ways:

- Through the operation of overseas branches/divisions who transact in their local foreign currency or any hard currencies and maintain bank financial statements in these foreign currencies, reducing exposure to exchange rate fluctuations.
- By ensuring its major supplier (MHI) invoices for goods or services supplied in the currency to be invoiced to the customer, where this is not the local currency of the country in which the branch or division is located, and the group maintains individual bank financial statements relating to each currency thereby reducing its exposure to exchange rate fluctuations.
- The UK treasury operations of MHPSE generate and hold sufficient sterling balances to meet operational activities and minimise foreign currency risks by managing cash flow forecasts of foreign operations and converting local currencies into sterling.

IFRS 7 defines currency risk as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rate.

The table below shows the group's sensitivity to non-Sterling exchange rates on its non-Sterling financial instruments (mainly Cash and cash equivalents, and Trade other payables/receivables, and related party balances).

A 10% (2012 – 10%) strengthening of Sterling against the following currencies would impact post tax loss (increased 2012 loss) by the amounts shown below. This analysis assumes that all other variables remain constant. In this table financial instruments are only considered sensitive for exchange rates where they are not in the functional currency of the entity that holds them.

	Impact on post tax loss/(profit)	
	2013	*2012*
	£000	*£000*
Euro	359	573
US Dollar	9	278
Japanese yen	226	(498)

A 10% (2012 – 10%) weakening of Sterling against these currencies would have had the equal and opposite effect to that shown above on the basis other variable remain constant.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The group's exposure to the risk of changes in market interest rates relates primarily to an interest rate swap contract with fixed interest rate. The fluctuation in the bank base rate against the fixed interest rate of the swap arrangement results in a gain or loss which is released to the income statement. The difference between fixed and variable rate interest amounts are calculated by reference to a fixed notional principal amount.

Operational management

The group maintain core operational activities. The group has established rules for internal audit and regular risk assessments are carried out by carrying out internal audit, instilling an awareness of

Strategic Report

Principal risks and uncertainties (continued)

Operational management (continued)

accountability and risk management. The objective is to ensure sufficient working capital within the group and monitor the management of credit and operational risks at a business unit level on an ongoing basis

Legislative risks

The group is subject to continuous changes in the UK and European standards and any new directive that may have an impact on the ability of the group to distribute and supply products at a profit.

Capital risk management

The group considers the equity (share capital and reserves, note 29) to be the capital of the business.
At 31 December 2013 this was £26,439,278 (2012 – £68,174,928) and the movement is mainly due to the group strategy to streamline its business activities, carved out its wind divisons, reorganise, strengthen, improve and consolidate its business performance in designated regions.

By order of the Board

今崎裕介

Secretary
Y Imasaki   Date: 17 October 2014

Directors' Report

The directors present their report and the group financial statements for the year ended 31 December 2013.

Dividends

A cash dividend payment of £3.6m was made in December 2013 following the transfer of the Artemis Wind business to MHIE (2012 – £nil).

Future developments

The group's strategy is to focus on improving its competitive and outstanding gas maintenance services, penetrating in new territories such as Russia, Ukraine and Tunisia and to exploit opportunities in the provision of non OEM gas turbine maintenance services through acquisition. The group engineering skills and know-how will assist in the build-up of an Engineering, Procurement and Construction (EPC) in Turkey in 2014 and further potential projects in EMEA

The group is improving its competitive advantage by exploiting the synergy realised from the merger of thermal power business between Mitsubishi Heavy Industries Ltd and Hitachi, Ltd in 2014 and forge a new team and product service with increased capability and performance.

Events since the balance sheet date

The group is expected to increase its revenue for the thermal power plant business following the merger with Hitachi by the group ultimate parent company. Combined operations in the ultimate parent companies started on 1/Feb/2014.

Going concern

The company and group's business activities and the factors likely to affect its future development, performance and position together with the principal risks it faces are set out in the Business Review on page 2, 3 and 4.

The company and group have considerable financial resources together with long-term contracts and maintain good relationships with a number of customers across different geographic areas. In addition to this, the company and group have an established supply chain since the major supplier of the company and group is MHI, the ultimate parent undertaking.

The company directors and the management team regularly review the group management financial statements along with forecasts and, as a consequence, believe that the group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The company directors and the management team have a reasonable expectation that the company and group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Directors

The directors who served the company during the year and subsequently were as follows:

Y Hanasawa
S Hoshi (appointed on 02 April 14)
K Sato (appointed on 02 April 14)
K Hasegawa (appointed on 02 April14)
K Hosomi (resigned 02 April 14)
S Maeda (resigned on 02 April 14)

Policy and practice on payment of creditors

It is the company's policy that payments to its suppliers are made in accordance with those terms and conditions agreed between the company and its suppliers, provided that all trading terms and conditions have been complied with.

At 31 December 2013, the company had an average of 166 days (2012 – 118 days) purchases outstanding in trade and related party creditor.

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 company'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.

Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

By order of the Board

今崎 裕介

Secretary
Y Imasaki Date: 17 October 2014

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards as adopted by the European Union.

Under Company Law the directors must not approve the financial statements unless they are satisfied that they present fairly the financial position, financial performance and cash flows of the group and company for that period. In preparing those financial statements the directors are required to:

- Present fairly the financial position, financial performance and cash flows of the Group;
- select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the group's and company's financial position and financial performance;
- state that the company has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements; and
- make judgements and estimates that are reasonable and prudent

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's and 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 company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report

to the members of Mitsubishi Hitachi Power Systems Europe Ltd

We have audited the financial statements of Mitsubishi Hitachi Power Systems Europe Ltd for the year ended 31 December 2013 which comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group and Company Statement of Financial Position, the Group Statement of Changes in Equity, the Group and Company Statement of Cash Flows and the related notes 1 to 30. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent undertaking financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 6, 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 Group's and the Parent undertakings' 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the financial statements

In our opinion, the financial statements:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31st December 2013 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Independent auditors' report

to the members of Mitsubishi Hitachi Power Systems Europe Ltd

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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

James Hilditch (Senior statutory auditor)
For and on behalf of Ernst & Young LLP (Statutory Auditor)
London
Date:

22 October 2014

Group income statement

for the year ended 31 December 2013

	Notes	2013 £	2012 Restated £
Revenue	5	137,680,515	177,178,541
Cost of sales		(115,798,342)	(134,139,354)
Gross profit		21,882,173	43,039,187
Administrative expenses		(46,080,239)	(42,470,321)
Group trading (loss)/profit		(24,198,066)	568,866
Other operating income/(charge)	6	359,970	(27,943)
Group operating (loss)/profit from continuing operations	7	(23,838,096)	540,923
Finance revenue	10	84,429	87,463
Finance costs	11	(445,047)	(626,072)
Group (loss)/profit from continuing operations before taxation		(24,198,714)	2,314
Taxation credit/(charge)	12	501,012	(2,130,017)
Loss for the year from continuing operations		(23,697,702)	(2,127,703)
Loss for the year attributable to:			
Equity holders of the parent		(23,697,702)	(2,044,490)
Non-controlling interest		–	(83,213)
		(23,697,702)	(2,127,703)

All amounts relate to continuing activities.

Group statement of comprehensive income

for the year ended 31 December 2013

	2013	2012
		Restated
	£	£
Loss for the year	(23,697,702)	(2,127,703)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods		
Re-measurement gains /(losses) on defined benefit plans	183,547	(351,832)
Other comprehensive income to be reclassified to profit or loss in subsequent periods		
Exchange difference on retranslation of foreign operations	637,442	(457,151)
Total comprehensive loss for the year	(22,876,713)	(2,936,686)
Attributable to:		
Equity holders of the parent	(22,876,713)	(2,853,473)
Non-controlling interest	–	(83,213)
	(22,876,713)	(2,936,686)

Group statement of financial position

at 31 December 2013

	Notes	*2013* £	*2012 Restated* £
Non-current assets			
Property, plant and equipment	13	18,084,828	32,611,632
Intangible assets	14	2,294,376	28,347,309
Financial assets	15	690,699	655,331
Available for sale investments	16	20,929	27,846
Deferred tax asset	12(c)	3,152,647	3,099,093
		24,243,479	64,741,211
Current assets			
Trade and other receivables	18	83,795,775	85,036,505
Inventories	19	14,856,033	19,089,568
Cash and cash equivalents	20	16,699,252	22,024,568
		115,351,060	126,150,641
Total assets		139,594,539	190,891,852
Current liabilities			
Trade and other payables	22	(80,612,739)	(61,551,354)
Loans and borrowings	23	(711,570)	(15,827,069)
Income tax payable		–	(1,639,444)
Deferred revenue	24	(13,231,973)	(11,887,387)
Derivative financial instruments		(12,982)	(12,696)
Provisions	26	(1,261,098)	(598,225)
		(95,830,362)	(91,516,175)
Non-current liabilities			
Loans and borrowings	23	(5,526,288)	(3,148,846)
Deferred revenue	24	(10,011,745)	(22,720,085)
Employee benefit liability	27	(680,763)	(745,431)
Other liabilities		(212,083)	(272,894)
Deferred tax liability	12(c)	(138,543)	(3,661,369)
Provisions	26	(755,477)	(711,499)
		(17,324,899)	(31,260,124)
Total liabilities		(113,155,261)	(122,776,299)
Net Assets		26,439,278	68,115,553
Capital and reserves			
Equity share capital	28	20,773,185	67,748,768
Currency translation	29	(2,378,283)	(2,996,400)
Retained earnings	29	8,044,376	3,422,560
Group shareholders' equity	29	26,439,278	68,174,928
Non-controlling interests		–	(59,375)
Total equity		26,439,278	68,115,553

Director
Y Hanasawa Date: 17 October 2014

Company statement of financial position

at 31 December 2013

	Notes	2013 £	2012 £
Non-current assets			
Property, plant and equipment	13	7,721,204	11,157,202
Intangible assets	14	458,337	337,884
Financial assets	15	687,214	2,924,143
Investments in subsidiaries	17	42,668,293	61,668,293
Deferred tax asset	12(c)	1,526,901	1,254,973
		53,061,949	77,342,495
Current assets			
Trade and other receivables	18	51,062,037	49,786,448
Inventories	19	8,318,369	12,506,448
Cash and cash equivalents	20	11,012,965	14,607,887
		70,393,371	76,900,783
Total assets		123,455,320	154,243,278
Current liabilities			
Trade and other payables	22	(36,911,210)	(38,972,503)
Loans and borrowings	23	(752)	(1,861)
Deferred revenue	24	(8,967,193)	(9,649,773)
Derivative financial instruments		(12,984)	(12,696)
Income tax payable		–	(1,483,453)
		(45,892,139)	(50,120,286)
Non-current liabilities			
Financial liabilities		(208,506)	(210,767)
Deferred revenue	24	(10,088,476)	(14,113,615)
Provisions		(96,990)	–
Employee benefit		(7,243)	–
Deferred tax liability	12(c)	(3,517)	(34,187)
		(10,404,732)	(14,358,569)
Total liabilities		(56,296,871)	(64,478,855)
Net Assets		67,158,449	89,764,423
Capital and reserves			
Equity share capital	28	20,773,185	67,748,768
Foreign currency translation reserves	29	264,214	(67,931)
Retained earnings	29	46,121,050	22,083,586
Total equity		67,158,449	89,764,423

Director

Y Hanasawa Date: 17 October 2014

Group statement of changes in equity

for the year ended 31 December 2013

Attributable to the equity holders of the parent

Group	*Equity share capital*	*Currency translation*	*Retained earnings*	*Group shareholders' equity*
	£	*£*	*£*	*£*
At 1 January 2012	57,530,600	(2,539,249)	5,816,483	60,807,834
Restatement (Note 4)	–	–	2,399	2,399
At 1 January 2012, restated	57,530,600	(2,539,249)	5,818,882	60,810,233
Share capital issued in the year	10,218,168	–	–	10,218,168
Loss for the year	–	–	(2,044,490)	(2,044,490)
Other comprehensive income	–	(457,151)	(351,832)	(808,983)
At 1 January 2013	67,748,768	(2,996,400)	3,422,560	68,174,928
Loss for the year	–	–	(23,697,702)	(23,697,702)
Other comprehensive income	–	637,442	183,547	820,989
Share capital issued in the year	1,495,182	–	–	1,495,182
Capital reduction	(48,470,765)	–	48,470,765	–
Disposal of businesses	–	(19,325)	(16,734,794)	(16,754,119)
Payment of dividends	–	–	(3,600,000)	(3,600,000)
At 31 December 2013	20,773,185	(2,378,283)	8,044,376	26,439,278

Non-controlling interests

	Total
	£
At 1 January 2012	48,135
Recognised for the year	(83,213)
On disposal	(24,297)
At 1 January 2013	(59,375)
On disposal	59,375
At 31 December 2013	–

Group statement of cash flows

for the year ended 31 December 2013

	Notes	2013 £	2012 £
Cash flows from operating activities			
Cash receipts from customers		127,095,808	176,268,095
Cash paid to suppliers and employees		(132,095,299)	(148,489,727)
Cash flow from operations		(4,999,491)	27,778,368
Other income/(costs)	6	246,614	(410,267)
Income taxes paid		(1,846,110)	(680,550)
Net cash flow from operating activities		(6,598,987)	26,687,551
Cash flows from investing activities			
Transfer of subsidiary - cash transferred		(7,365,485)	-
Purchase of property, plant and equipment	13	(8,356,337)	(12,891,607)
Purchase of intangible assets	14	(827,328)	(528,021)
Proceeds from sale of equipment		10,029,303	2,041,774
Interest received		84,430	107,158
Net cash flow from investing activities		(6,435,417)	(11,270,696)
Cash flows from financing activities			
Proceeds from issue of share capital	28	-	10,218,168
Cash pooling with group companies		28,869,496	(20,202,834)
Repayments of short-term borrowings		(15,742,692)	(11,170,617)
Interest paid		(455,395)	(616,833)
Dividends paid		(3,600,000)	-
Finance lease payments		(441,000)	(277,000)
Net cash flow from financing activities		8,630,409	(22,049,116)
Net decrease in cash and cash equivalents		(4,403,995)	(6,632,261)
Cash and cash equivalents at 1 January		22,024,568	29,946,138
Cash and cash equivalents at 31 December	21	16,699,252	22,024,568
		(5,325,316)	(7,921,570)
Less: net foreign exchange loss		921,321	1,289,309
		(4,403,995)	(6,632,261)

Company statement of cash flows

for the year ended 31 December 2013

	Notes	2013 £	2012 £
Cash flows from operating activities			
Cash receipts from customers		76,390,214	129,624,093
Cash paid to suppliers and employees		(72,279,506)	(107,360,859)
Cash flow from operations		4,110,708	22,263,234
Income taxes paid		(2,214,261)	(602,439)
Net cash flow from operating activities		1,896,447	21,660,795
Cash flows from investing activities			
Purchase of fixed assets	13	(7,741,535)	(8,566,178)
Reduction in cash when transferring subsidiary		(5,048,917)	-
Purchase of intangible assets	14	(471,444)	(57,603)
Proceeds from sale of equipment		222,331	4,184
Other income		-	(182,927)
Interest received		60,528	101,086
Investment in subsidiaries		-	(11,941,854)
Net cash used in investing activities		(12,979,037)	(20,643,292)
Cash flows from financing activities			
Proceeds from issue of share capital	28	-	10,218,168
Repayment of long-term borrowings		-	(508,613)
Cash pooling with Group companies		11,352,410	(19,118,199)
Finance lease payments		-	(60,834)
Intra group company loans	15	-	(2,269,875)
Interest paid		(8,230)	(11,806)
Dividends paid		(3,600,000)	-
Net cash flow from financing activities		7,744,180	(11,751,159)
Net decrease in cash and cash equivalents		(3,338,410)	(10,733,656)
Cash and cash equivalents at 1 January		14,607,887	26,276,261
Cash and cash equivalents at 31 December	21	11,012,965	14,607,887
		(3,594,922)	(11,668,374)
Less: net foreign exchange loss		256,512	934,718
		(3,338,410)	(10,733,656)

Notes to the financial statements

at 31 December 2013

1. General information

The financial statements of Mitsubishi Hitachi Power Systems Europe Ltd (MHPSE) and its subsidiaries (the 'Group') for the year ended 31 December 2013 were authorised for issue by the board of directors on 17 October 2014 and the balance sheet was signed on the board's behalf by Y Hanasawa. Mitsubishi Hitachi Power Systems Europe Ltd (MHPSE) reports to Mitsubishi Hitachi Power Systems Japan which is itself a subsidiary undertaking of Mitsubishi Heavy Industries Limited (the ultimate parent undertaking and controlling party) which is incorporated in Japan. Mitsubishi Hitachi Power Systems Europe Ltd is a private company incorporated and domiciled in England and Wales. The address of the company's registered office is 20 North Audley Street, London W1K 6WE. The principal activity of the company and the group is sales and the provision of after-sales service of power generating equipment and systems to customers in Europe, the Middle East and Africa (EMEA). The wind turbine businesses of MHPSE were transferred to Mitsubishi Heavy Industries Europe Limited as of 30 November 2013.

2. Basis of preparation

Statement of compliance

The group's financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union as they apply to the financial statements of the group for the year ended 31 December 2013.

Basis of consolidation

The group financial statements comprise the financial statements of Mitsubishi Hitachi Power Systems Europe Ltd and its subsidiaries as at 31 December 2013.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the group obtains control, and continue to be consolidated until the date that such control ceases.

The financial statements of the subsidiaries are prepared for the same reporting year as the parent undertaking, using consistent accounting policies.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Non-controlling interests represent the portion of profit or loss and net assets in subsidiaries that is not held by the group and is presented separately within equity in the group balance sheet, separately from parent shareholders' equity.

3. Significant accounting estimates and assumptions

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

Key sources of estimation uncertainty

Impairment of goodwill and other intangible assets

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use.

The group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 4 below. The recoverable amounts of cash-generating units have been determined based on income approach calculations for the CGU of Maintenance Partner N.V, MH Power Systems Belgium NV and MH Power Systems Romania S.R.L

Notes to the financial statements

at 31 December 2013

3. Significant accounting estimates and assumptions (continued)

Key sources of estimation uncertainty (continued)

Impairment of goodwill and other intangible assets (continued)

The income approach indicates the market value of the business based on the present value of the cash flows that the business can be expected to generate in the future and such cash flows are based on a discounted cash flow model that reflects the time value of money and the risks associated with the cash flows. The cash flows are derived from the management business plan for the next five years and cash flows beyond the five years are extrapolated using an estimated growth and inflation rates. The discount rate used is post-tax and is calculated on an average tax rate of the countries where the sales are realised ie reflecting specific risks relating to the CGU. A prudent perpetual long-term average growth of 3% was used to represent the growth rate of products, industries and growth in which the group operates.

Warranty provision

The group recognises provision for maintenance warranties claims based on past experience of the level of repairs and returns for the year of the contractual warranty which is normally not longer than 12 months. Assumptions used to calculate the provision for warranties were based on current sales levels current information available about returns based on the warranty years for all products sold.

Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective group company's domicile.

4. Accounting policies

New and amended standards and interpretations

The Group applied for the first time IAS 19 Employee Benefits (Revised 2011) which requires restatement of previous financial statements. Management consider the effect of this restatement as immaterial.

New and amended standards and interpretations issued but not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for later accounting years and which have not been adopted early. These are:

- IAS 1 presentation of Items of Other Comprehensive Income – Amendments to IAS1 effective for periods beginning on or after 1 July 2012.
- IAS 19 Employee Benefits (Revised) - The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording.
- IAS 32 Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32. These amendments clarify the meaning of "currently has a legally enforceable right to set-off". These amendments are not expected to impact the entity's financial position or performance and become effective for annual periods beginning on or after 1 January 2014.

Notes to the financial statements

at 31 December 2013

4. Accounting policies (continued)

New and amended standards and interpretations issued but not yet effective (continued)

- IAS 28 Investments in Associates and Joint Ventures (as revised in 2011) .As a consequence of the new IFRS 11 Joint Arrangements, and IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in Associates, has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The revised standard becomes effective for annual periods beginning on or after 1 January 2013. However, it is not applicable to the entity.
- IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7. These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the entity's financial position or performance and become effective for annual periods beginning on or after 1 January 2013.
- IFRS 9 Financial Instruments: Classification and Measurement. IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets The standard has no effect on the entity's financial statements.
- IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements. IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 Consolidation — Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. IFRS 10 does not have any impact on the entity. This standard becomes effective for annual periods beginning on or after 1 January 2013.
- IFRS 11 Joint Arrangements. IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Ventures. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. These amendments will not impact the entity's financial position or performance and become effective for annual periods beginning on or after 1 January 2013.
- IFRS 12 Disclosure of Interests in Other Entities. IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required, but has no impact on the entity's financial position or performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

Notes to the financial statements

at 31 December 2013

4. Accounting policies (continued)

New and amended standards and interpretations issued but not yet effective (continued)

- IFRS 13 Fair Value Measurement. IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. This has no impact on the entity's financial statements. This standard becomes effective for annual periods beginning on or after 1 January 2013.
- Annual Improvements May 2012 – these include improvements to IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34

The directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Company's financial statements in the period of initial application.

Statement of cash flows

Group prepares statement of cash flows under IAS 7 applying direct method.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

Property, plant and equipment

Property, plant and equipment are stated in the Balance Sheet at cost less accumulated depreciation and accumulated impairment losses. Depreciation is recognised on a straight-line basis over its useful life, as follows:

Freehold land	–	nil
Leasehold land and buildings	–	remaining lease term
Computer equipment	–	3 to 5 years
Fixtures and fittings	–	3 to 5 years

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the greater of fair value less costs to sell and value in use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Investments in subsidiaries

Investments in subsidiaries held by Mitsubishi Power Systems Europe Limited are accounted for at cost in the separate financial statements of the company. The carrying values of investments in subsidiaries are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

Notes to the financial statements

at 31 December 2013

4. Accounting policies (continued)

Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash generating units or groups of cash generating units that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment.

(b) Other intangibles

Separately identifiable intangible assets acquired are capitalised at cost and those acquired from a business acquisition are capitalised at fair value as at the date of acquisition. The useful lives of these intangible assets are assessed to be either finite or indefinite. Where amortisation is charged on assets with finite lives, this expense is taken to the income statement in the expense category consistent with the function of the intangible asset.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation year and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation year or method, as appropriate, and are treated as changes in accounting estimates.

Contractual customer relationships acquired in a business combination are recognised at fair value at the acquisition date. The contractual customer relations have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected life of the customer relationship.

Developed technology represents the technology acquired in a business combination for which commercialisation has already begun and no further research and development is required by the group to ensure the technology can be used. Developed technology is recognised at fair value at the acquisition date. The developed technology has a finite useful life and is carried at cost less accumulated amortisation. Management have estimated the useful life to be 15 years with regards to its application in automotive industry. Amortisation is calculated using the straight-line method over the expected life of the developed technology.

In-process research and development encompasses technology acquired in a business combination for which significant engineering challenges existed with further investment and development still required. In-process research and development is recognised at fair value at the acquisition date. This intangible is not currently available for use until research and development is completed and is therefore not being amortised.

Notes to the financial statements

at 31 December 2013

4. Accounting policies (continued)

Intangible assets (continued)

(b) Other intangibles (continued)

The amortisation period for the principal categories of intangible assets is calculated as follows:

Software	–	3-5 years
Licences	–	10-20 years
Contractual customer relationships	–	3-15 years
Developed technology	–	15 years

Intangible assets are tested for impairment when a trigger event occurs. Useful lives are also examined on an annual basis and adjustments, where applicable are made on a prospective basis.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the group and the revenue can be reliably measured. Revenue is measured excluding discounts, rebates, and other sales taxes such as VAT.

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

Sale of goods

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

Rendering of services

Revenue from the provision of long-term contracts is recognised by reference to the stage of completion. Stage of completion is measured by reference to total actual costs incurred to date as a percentage of total estimated costs for each contract on the basis that the contract outcome can be measured reliably based on the group's past experience in similar contracts.

Royalties

Royalties income are recognised on an accruals basis in accordance with the substance of the relevant agreement.

Interest income

Revenue is recognised as interest accrues using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to its net carrying amount.

Foreign currency translation

Items included in the financial statements of each group entity are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the financial information, the results and financial position of each group company are expressed in pounds sterling, which is the functional currency of the company, and the presentation currency for the group financial statements.

Transactions in foreign currencies are initially recorded in the functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Notes to the financial statements

at 31 December 2013

4. Accounting policies (continued)

Foreign currency translation (continued)

Net investment in a foreign operation shall be recognised in profit or loss in the separate financial statements of the reporting entity or the individual financial statements of the foreign operation, as appropriate. In the group financial statements, such exchange differences shall be recognised initially in a separate component of equity and recognised in profit or loss on disposal of the net investment.

Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the group financial statements. However, the deferred income tax is not accounted for, if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

An entity shall recognise a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures, except to the extent that both of the following conditions are satisfied:

- the parent, investor or venture is able to control the timing of the reversal of the temporary difference; and
- it is probable that the temporary difference will not reverse in the foreseeable future.

Current income tax

The group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision and liability for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

The group recognises liabilities for tax issues based on estimates of whether additional taxes will be due, based on its best interpretation of the relevant tax laws. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the year in which such determination is made.

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the year of the lease.

Financial assets and financial liabilities

Initial recognition

Financial assets and liabilities are recognised on the group's balance sheet when the group becomes a party to the contractual provisions of the instrument. The group's financial assets include cash and short-term deposits, trade and other receivables, loan and other receivables, available-for-sale financial assets and derivative financial instruments.

Trade receivables

Trade receivables are carried at original invoice amount, including value added tax, less an estimate made for doubtful receivables based on a review of any outstanding amounts at the year end and on historical performance. Bad debts are written off in the year in which they are identified.

Notes to the financial statements

at 31 December 2013

4. Accounting policies (continued)

Available-for-sale financial investments

Available-for-sale financial investments are recorded at fair value.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the group that do not meet the hedge accounting criteria as defined by IAS 39.

Government grants and contributions

Government grants and contributions in respect of property, plant and equipment are deferred and credited to the income statement by instalments over the expected economic lives of the related assets. Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

Government grants and contributions received in respect of an item of expense during the year are recognised to the income statement on a systematic basis in line with the cost that it is intended to compensate.

Employee Benefits

(a) Pension Plans

- Defined contribution scheme

The group operates defined contribution schemes for those members of staff who are not members of its defined benefit scheme. Two are pension plans under which the group pays a fixed contribution into a separate entity which operates the schemes. The other provides the employees with a lump sum on retirement, with which they then invest in an annuity. Other than this contribution the group has no further legal or constructive obligation to make further contributions to the scheme.

Obligations for contributions to the scheme are recognised as an expense in the income statement in the year in which they arise.

- Defined benefit scheme

The group operates defined benefit schemes in Belgium. Defined benefit scheme is a pension plan under which the amount of pension benefit that an employee receives on retirement is defined by reference to factors including age, years of service and compensation.

The schemes are funded by payments, determined by periodic actuarial calculations agreed between the company and the trustees to trustee administered funds liability or asset is recognised in the balance sheet in respect of the group's net obligations to the schemes calculated separately for each scheme. The liability represents the present value of the defined benefit obligations at the balance sheet date, less the fair value of the scheme assets and past service costs. The plan assets are assets that are mainly held by qualifying Bonds, Real Estate funds and Equities funds. Plan assets are not available to the creditors of the group, nor can they be paid directly to the group.

Notes to the financial statements

at 31 December 2013

4. Accounting policies (continued)

Employee Benefits (continued)

(b) Pension Plans

- Defined benefit scheme (continued)

The defined benefit obligation represents the estimated amount of future benefits that employees have earned in return for their services in current and prior periods, discounted at a rate representing the yield on a high quality corporate bond at the balance sheet date, denominated in the same currency as the obligations and having the same terms to maturity as the related pension liability, applied to the estimated future cash outflows arising from these obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

Provisions

Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

Obligations for loans and borrowings are recognised when the group becomes party to the related contracts and are measured initially at the fair value of consideration received less directly attributable transaction costs.

Borrowing costs

Borrowing costs are recognised as an expense when incurred. Borrowing costs consists of interest and other costs that an entity incurs in connection with the borrowing of funds.

Share-based payment transactions – Cash-settled

The cost of cash-settled transactions is measured initially at fair value at the grant date based on the equity value of the business. The expense and the liability will be deemed tranche vest over the fixed year in which the services are provided by the employees.

5. Revenue

	2013	*2012*
	£	*£*
Rendering of services	137,475,418	176,317,790
Royalties income	205,097	860,751
Revenue	137,680,515	177,178,541
UK	14,374,854	42,594,291
Europe	66,552,715	76,868,484
Middle East	17,631,000	19,363,242
Rest of the world	39,121,946	38,352,524
	137,680,515	177,178,541

Notes to the financial statements

at 31 December 2013

6. Other operating income/(charges)

	2013 £	*2012* £
(Loss)/Gain on disposal of property, plant and equipment	(130,217)	216,207
Government grants (note 21)	243,573	166,117
Other income/(charges)	246,614	(410,267)
Total other income/(charges)	359,970	(27,943)

7. Group operating loss/(profit)

This is stated after charging:

	2013 £	*2012* £
Auditors' remuneration (note 8)	291,237	291,581
Depreciation of property, plant and equipment (note 13)	3,456,427	2,826,975
Amortisation and impairment of intangible assets (note 14)	13,033,134	7,993,373
Total depreciation and amortisation expense	16,489,561	10,820,348
Operating lease payments	2,023,375	1,355,881
Increase in provision of impairment of trade receivables (note 18)	273,347	243,097
Net foreign currency loss	2,223,498	2,514,834

8. Auditors' remuneration

	2013 £	*2012* £
Audit of the group financial statements	101,200	112,700
Other fees to auditors – auditing the financial statements of subsidiaries	116,980	93,881
– other services relating to taxation	50,380	–
– other advisory services	22,677	85,000
	291,237	291,581

9. Staff costs

	2013 £	*2012* £
Wages and salaries	23,168,447	22,707,914
Social security costs	4,678,737	4,667,713
Pension costs	670,243	424,763
	28,517,427	27,800,390

Notes to the financial statements

at 31 December 2013

9. Staff costs (continued)

Included in other pension costs are £521,033 (2012 – £278,858) in respect of defined contribution scheme and £149,210 (2012 – £145,905) in respect of defined benefit scheme and the average weekly number of employees during the year was as follows:

	No.	*No.*
Administrative, sales and operating staff	618	659

10. Finance revenue

	2013	*2012*
	£	*£*
Interest from short-term bank deposits	43,905	78,867
Other interest income	40,524	8,596
Total finance revenue	84,429	87,463

11. Finance costs

	2013	*2012*
	£	*£*
Interest on debts and borrowings loan	159,612	547,661
Finance costs payables under finance leases and hire purchase contracts	220,347	22,548
Interest on loan notes	–	51,548
Other interest expense	65,088	4,315
	445,047	626,072

12. Tax

(a) Tax on loss on ordinary activities

Tax loss in the income statement

	2013	*2012*
	£	*£*
Current income tax		
UK corporation tax – continuing operations	–	183,321
Adjustments in respect of prior years	(52,671)	(379,137)
	(52,671)	(195,816)
Foreign tax:		
Current year	1,084,325	2,153,181
Adjustments in respect of prior years	128,077	143,506
	1,212,402	2,296,687
Total current income tax	1,159,731	2,100,871

Notes to the financial statements

at 31 December 2013

12. Tax (continued)

(a) Tax on loss on ordinary activities (continued)

	2013 £	2012 £
Deferred tax:		
Origination and reversal of temporary differences	(1,519,412)	(384,874)
Effect of changes in tax rates on opening liability	(228,425)	(213,405)
Adjustments in respect of prior years	87,094	627,425
Total deferred tax	(1,660,743)	29,146
Tax credit in the income statement	(501,012)	2,130,017
The tax credit in the income statement is disclosed as follows:		
Income tax credit on continuing operations	(501,012)	2,130,017

(b) Reconciliation of the total tax (credit)/charge

The tax expense in the income statement for the year is higher than the standard rate of corporation tax in the UK of 23.25% (2012 – 24.5%). The differences are reconciled below:

	2013 £	2012 £
(Loss)/ Profit from continuing activities before taxation	(24,198,714)	2,314
Accounting loss multiplied by standard rate of corporation tax in the UK of 23.25% (2012 – 24.5%)	(5,626,202)	567
Effects of:		
Expenses not deductible for tax purposes	3,283,002	2,326,602
Transfers to unrecognised tax asset	2,545,867	157,667
Tax effect on non-deductible or non-taxable items	306,116	402,225
Current year movement rate movement	58,957	9,918
Impact of differences in overseas tax rates	(1,002,827)	(553,558)
Adjustments in respect of prior years – current tax	75,406	–
Adjustments in respect of prior years – deferred tax	87,094	–
Impact of change in tax rate on deferred tax	(228,425)	(213,404)
Total tax (credit)/charge reported in the income statement	(501,012)	2,130,017

Notes to the financial statements

at 31 December 2013

12. Tax (continued)

(c) Deferred tax

The deferred tax included in the group and company statement of financial position relates to the following:

	Group 2013 £	Group 2012 £	Company 2013 £	Company 2012 £
Deferred tax liabilities				
Accelerated depreciation	–	39,373	–	33,092
Fair value adjustments on acquisitions	–	3,557,053	–	–
Pensions	–	–	1,507	–
Deferred income & expense	–	–	2,010	–
Deferred leasing liabilities	124,641	21,615	–	–
Reclassification of government grant	12,395	12,125	–	–
Other timing difference	1,507	31,203	–	1,095
	138,543	3,661,369	3,517	34,187
Deferred tax asset				
Tax losses	3,931,750	2,841,870	209,391	–
Less not recognised	(2,495,065)	(1,252,247)	–	–
	1,436,685	1,589,623	209,391	
Decelerated capital allowances	87,536	5,000	87,536	–
Spanish risk and expenses provisions	1,229,974	1,254,419	1,229,974	1,254,419
Other timing differences	19,195	1,710	–	554
Pensions	379,257	248,341	–	–
Timing difference on derivatives	–	–	–	–
	3,152,647	3,099,093	1,526,901	1,254,973

	Group 2013 £	Group 2012 £	Company 2013 £	Company 2012 £
Disclosed on the balance sheet				
Deferred tax asset	3,152,647	3,099,093	1,526,901	1,254,973
Deferred tax liability	(138,543)	(3,661,369)	(3,517)	(34,187)
	3,014,104	(562,276)	1,523,384	1,220,786

Notes to the financial statements

at 31 December 2013

12. Tax (continued)

(c) Deferred tax (continued)

Reconciliation of deferred tax asset/ (liability)

		Group		*Company*
	2013	*2012*	*2013*	*2012*
	£	*£*	*£*	*£*
Opening balance as of 1 January	(562,276)	(533,099)	1,220,786	1,745,831
To Equity:				
On disposal of subsidiary	1,854,635	–	–	–
Reclassification to other liabilities	–	(31)	–	–
Foreign exchange movement	61,002	–	27,505	–
To income statement	1,660,743	(29,146)	275,093	(525,045)
	3,014,104	(562,276)	1,523,384	1,220,786

The deferred tax included in the group and company income statement relates to the following:

		Group		*Company*
	2013	*2012*	*2013*	*2012*
		£		*£*
Deferred tax in the income statement:				
Effect of change in tax rate on opening liability	(228,425)	–	(2,650)	–
Decelerated capital allowance	–	23,657	–	22,855
Prior year adjustment	87,094	–	102,090	–
Other timing differences	(1,519,412)	5,489	(374,533)	502,190
	(1,660,743)	29,146	(275,093)	525,045

(d) Factors that may affect future tax charges

The Finance Act 2012 included legislation to reduce the main rate of corporation tax from 24% to 23% from 1 April 2013 resulting in a blended current tax rate of 23.25% for the period. Further reductions to 21% (effective 1 April 2014) and 20% (effective 1 April 2015) were enacted in the Finance Act 2013 which received Royal Assent on 17 July 2013. As the additional reductions were enacted at the balance sheet date, the deferred tax balances arising in the UK have been recognised at the 21% tax rate. The impact of the UK deferred tax balances unwinding at the lower rate of 20% is not considered to be material.

Notes to the financial statements

at 31 December 2013

13. Property, plant and equipment

Group	*Land and buildings*	*Plant and equipment*	*Construction in progress*	*Total*
	£	*£*	*£*	*£*
Cost:				
At 1 January 2012	5,897,354	12,452,937	7,762,115	26,112,406
Foreign currency adjustment	(95,368)	(454,095)	(383,658)	(933,121)
Additions	3,626,907	2,897,093	9,608,383	16,132,383
Disposals	–	(4,165,135)	(259)	(4,165,394)
At 1 January 2013	9,428,893	10,730,800	16,986,581	37,146,274
Foreign currency adjustment	588,737	201,247	62,852	852,836
Additions	2,876,052	2,674,596	6,339,811	11,890,459
Transfers	8,256,510	6,018,20	(14,304,530)	–
Disposals	(8,931,595)	(3,190,942)	(8,957,191)	(21,079,728)
At 31 December 2013	12,248,597	16,433,721	127,523	28,809,841
Depreciation:				
At 1 January 2012	(835,433)	(3,387,563)	–	(4,222,996)
Foreign currency adjustment	16,858	125,800	–	142,658
Provided during the year	(864,019)	(1,962,956)	–	(2,826,975)
Disposals	–	2,372,671	–	2,372,671
At 1 January 2013	(1,682,594)	(2,852,048)	–	(4,534,642)
Foreign currency adjustment	(38,436)	(49,556)	–	(87,992)
Provided during the year	(939,612)	(2,516,815)	–	(3,456,427)
Disposals	418,036	921,567	–	1,339,603
Impairment during the year	(2,447,478)	(1,538,077)	–	(3,985,555)
At 31 December 2013	(4,690,084)	(6,034,929)	–	(10,725,013)
Net book value:				
At 31 December 2013	7,558,513	10,398,786	127,523	18,084,828
At 1 January 2013	7,746,299	7,878,752	16,986,581	32,611,632

The group leases various plant and equipment under non-cancellable leases agreements. These assets are pledged as security for the related finance lease. The following amounts include items that were under finance leases where the group is a lessee:

	2013	*2012*
	£	*£*
Cost-capitalised finance leases	7,528,422	4,448,093
Accumulated depreciation	(1,976,718)	(959,645)
Net book amount	5,551,704	3,488,448

Notes to the financial statements

at 31 December 2013

13. Property, plant and equipment (continued)

Company	*Leasehold improve-ments* £	*Plant and equipment* £	*Construction progress* £	*Total* £
Cost:				
At 1 January 2012	2,420,999	2,299,817	258	4,721,074
Foreign currency adjustment	(2,079)	(24,100)	–	(26,179)
Additions	121,875	1,313,906	7,130,397	8,566,178
Transfers	–	19,363	–	19,363
Disposals	–	(26,503)	(259)	(26,762)
At 1 January 2013	2,540,795	3,582,483	7,130,396	13,253,674
Foreign currency adjustment	1,893	17,802	56,023	75,718
Additions	152,424	1,320,050	6,269,061	7,741,535
Transfers	–	4,655,333	(4,655,333)	–
Disposals	(161,989)	(1,366,258)	(8,742,080)	(10,270,327)
At 31 December 2013	2,533,123	8,209,410	58,067	10,800,600
Depreciation:				
At 1 January 2012	(269,302)	(1,160,712)	–	(1,430,014)
Foreign currency adjustment	104	21,394	–	21,498
Provided during the year	(190,189)	(511,851)	–	(702,040)
Transfers	19	878	–	897
Disposals	–	13,187	–	13,187
At 1 January 2013	(459,368)	(1,637,104)	–	(2,096,472)
Foreign currency adjustment	(258)	(15,346)	–	(15,604)
Provided during the year	(217,000)	(1,113,963)	–	(1,330,963)
Disposals	6,200	357,443	–	363,643
At 31 December 2013	(670,426)	(2,408,970)	–	(3,079,396)
Net book value				
At 31 December 2013	1,862,697	5,800,440	58,067	7,721,204
At 1 January 2013	2,081,427	1,945,379	7,130,396	11,157,202

The company does not hold any fixed assets that were held under finance leases at year end (2012 – £nil).

Notes to the financial statements

at 31 December 2013

14. Intangible assets

Group	*Goodwill*	*Software*	*Licences*	*Contractual customer relationship*	*Developed technology*	*In-process research and development*	*Total*
Cost:	£	£	£	£	£	£	£
At 1 January 2012	17,862,612	3,892,652	40,233	6,126,666	9,155,000	3,390,000	40,467,163
Foreign currency adjustment	(430,855)	(49,356)	–	(158,234)	–	–	(638,445)
Additions	–	528,021	–	–	–	–	528,021
Transfers	–	(17,207)	–	–	–	–	(17,207)
Disposals	–	(42,583)	–	–	–	–	(42,583)
At 1 January 2013	17,431,757	4,311,527	40,233	5,968,432	9,155,000	3,390,000	40,296,949
Foreign currency adjustment	358,969	58,776	–	50,750	–	–	468,496
Additions	–	827,328	–	–	–	–	827,328
Disposals	(1,585,676)	(2,483,129)	–	(67,000)	(9,155,000)	(3,390,000)	(16,680,804)
At 31 December 2013	16,205,051	2,741,503	40,233	5,592,182	–	–	24,911,969
Amortisation:							
At 1 January 2012	–	(429,981)	(8,047)	(2,992,631)	(661,194)	–	(4,091,853)
Foreign currency adjustment	–	33,354	–	75,286	–	–	108,640
Provided during the year	–	(381,318)	(2,011)	(998,445)	(610,333)	–	(1,992,107)
Disposals	–	26,946	–	–	–	–	26,946
Impairment during the year	(6,001,266)	–	–	–	–	–	(6,001,266)
At 1 January 2013	(6,001,266)	(750,999)	(10,058)	(3,915,790)	(1,271,527)	–	(11,949,640)
Foreign currency adjustment	(135,928)	(30,274)	–	(4,846)	–	–	(171,048)
Provided during the year	–	(460,295)	–	(177,532)	(559,472)	–	(1,197,299)
Disposals	–	640,241	(2,012)	67,000	1,831,000	–	2,536,229
Impairment during the year	(9,912,456)	(2,365)	-	(1,921,014)	–	–	(11,835,835)
At 31 December 2013	(16,049,650)	(603,691)	(12,070)	(5,952,182)	–	–	(22,617,593)
Net book value:							
At 31 December 2013	155,401	2,110,812	28,163	–	–	–	2,294,376
At 1 January 2013	11,430,492	3,560,528	30,174	2,052,642	7,883,473	3,390,000	28,347,309

Notes to the financial statements

at 31 December 2013

14. Intangible assets (continued)

Company	*Software* £	*Licences* £	*Total* £
Cost:			
At 1 January 2012	796,710	40,233	836,943
Foreign currency adjustment	(15,959)	–	(15,959)
Additions	57,603	–	57,603
Transfers	(19,315)	–	(19,315)
At 1 January 2013	819,039	40,233	859,272
Foreign currency adjustment	14,521	–	14,521
Additions	471,444	–	471,444
Disposals	(668,417)	–	(668,417)
At 31 December 2013	636,587	40,233	676,820
Amortisation:			
At 1 January 2012	(383,023)	(8,047)	(391,070)
Foreign currency adjustment	25,627	–	25,627
Provided during the year	(153,933)	(2,012)	(155,945)
At 1 January 2013	(511,329)	(10,059)	(521,388)
Foreign currency adjustment	(7,999)	–	(7,999)
Provided during the year	(142,093)	(2,012)	(144,105)
Disposals	455,009	–	455,009
At 31 December 2013	(206,412)	(12,071)	(218,483)
Net book value:			
At 31 December 2013	430,175	28,162	458,337
At 1 January 2013	307,710	30,174	337,884

Impairment

Management impaired the goodwill and customer relationship recognised on the acquisition of Maintenance Partners N.V following the restructuring of the latter to improve business performance and expected margins. All the tangible and intangible assets of MH Power Systems Belgium NV were also impaired during the year.

Intangibles associated to developed technologies and in-process research and development of the wind division were transferred to the group's ultimate parent company towards the end of the financial year.

15. Non current financial assets

		Group		*Company*
	2013	*2012*	*2013*	*2012*
	£	£	£	£
Loan receivable from group company	–	–	–	2,269,875
Other debtors including lease deposits	690,699	655,331	687,214	654,268
	690,699	655,331	687,214	2,924,143

Notes to the financial statements

at 31 December 2013

16. Available for sale investments

		Group		Company
	2013	*2012*	*2013*	*2012*
	£	*£*	*£*	*£*
Corporate bonds	20,929	20,465	–	–
Interest in joint venture	–	7,381	–	–
	20,929	27,846	–	–

Available for sale investments held in Maintenance Partners N.V. are unquoted corporate bonds commercial paper in Vlerick Business School with maturity date of May 2016. Investments held in Artemis Intelligent Power Limited as interest in joint venture with New Malone Company Limited was written off during the year.

Management's estimate, on the basis that the financials of Vlerick Business School remain stable, the market value of the assets at 31 December 2013 is £20,929. The fair value of the assets is not discounted to present value due to its short duration and size.

17. Investments in subsidiaries

		Company
	2013	*2012*
	£	*£*
Maintenance Partners N.V	34,563,875	34,563,875
Artemis Intelligent Power	–	19,000,000
Egypt	1,000,000	1,000,000
MHIEV	888,839	888,839
MPSE Belgium	5,993,723	5,993,723
MPSE Romania	221,856	221,856
	42,668,293	61,668,293

The investment in Artemis Intelligent Power of £19,000,000 was transferred to the ultimate parent company towards the end of the financial year.

Notes to the financial statements

at 31 December 2013

18. Trade and other receivables

	Group 2013	Group 2012	Company 2013	Company 2012
	£	£	£	£
Trade receivables	34,004,537	32,989,500	21,699,462	16,007,365
Amounts owed by related parties	17,513,720	30,015,784	13,395,252	25,893,143
Prepayments	14,353,380	11,724,843	514,258	595,025
Accrued income	14,711,726	6,337,196	14,069,336	4,834,124
Other debtors	3,212,412	3,969,182	1,383,729	2,456,791
	83,795,775	85,036,505	51,062,037	49,786,448

Group other debtors of £3,212,412 include corporation tax recoverable of £483,649 at year end.

Trade receivables are non-interest bearing and are generally on 30-180 days' terms. As at 31 December 2013 trade receivables at nominal value of £868,126 (2012 – £594,779) were impaired and fully provided for. Movements in the provision for impairment of receivables were as follows:

	Group 2013	Group 2012	Company 2013	Company 2012
	£	£	£	£
At 1 January	594,779	351,682	–	–
Written off/Charge for the year	289,083	256,914	–	–
Reversal of unused amounts	-	(6,655)	–	–
Exchange rate movement	(15,736)	(7,162)	–	–
At 31 December	868,126	594,779	–	–

19. Inventories

	Group 2013	Group 2012	Company 2013	Company 2012
	£	£	£	£
Supplies and parts	7,764,750	8,326,829	985,081	2,189,439
Finished goods and goods for resale	7,091,283	10,762,739	7,333,288	10,317,009
	14,856,033	19,089,568	8,318,369	12,506,448

The amount of write-down on inventories during the year was £586,491 (2012 – £nil).

Notes to the financial statements

at 31 December 2013

20. Cash and short-term deposits

	Group		*Company*	
	2013	*2012*	*2013*	*2012*
	£	*£*	*£*	*£*
Cash at bank and in hand	8,829,865	14,738,682	3,143,578	7,322,001
Short-term deposits (< 3 months)	7,869,387	7,285,886	7,869,387	7,285,886
	16,699,252	22,024,568	11,012,965	14,607,887

Cash at bank earns interest at floating rates based on daily bank deposit rates. Deposits are made for varying years of between one day and six months depending on the immediate cash requirements of the group and earn interest at the respective deposit rates. The fair value of cash and cash equivalents for the group is £16,699,252 (2012 – £22,024,568) and the company is £11,012,965 (2012 – £14,607,887).

The group only deposits cash surpluses with major banks of high quality credit standing.

21. Government grant

	2013	*2012*
	£	*£*
At 1 January	56,568	98,539
Received during the year	(377,476)	(208,088)
Transfer of wind division	(106,983)	–
Released to the income statement	427,891	166,117
At 31 December	–	56,568
Current	–	56,568
Non-current	–	–
At 31 December	–	56,568

Government grants are receivable from Technology Strategy Board (TSB) for the research and development work related to high efficiency digital hydraulic motor for kinetic energy recovery, Department of Energy and Climate Change (DECC) to develop and test digital displacement hydraulic transmission system technology for offshore wind turbines under Environmental Transformation Fund (ETF). Grants receivable from TSB up to November 2013 were transferred to MHIE when the wind divisions were transferred to the latter. At year end, grant associated to TSB and released to the income statement were £243,573 and disclosed as other income (note 6).

Grant received of £184,318 from the Wallonie government in Belgium in respect of wind research and development is offset against payroll, administrative expenses and a smaller part against depreciation in the Income Statement and not accounted as other income. There are no unfulfilled conditions or contingencies attached to the grant.

Notes to the financial statements

at 31 December 2013

22. Trade and other payables

		Group		*Company*
	2013	*2012*	*2013*	*2012*
	£	*£*	*£*	*£*
Amounts owed to ultimate parent undertaking	39,827,868	25,877,832	25,027,291	24,779,332
Amounts owed to fellow group companies	706,216	2,138,771	2,553,749	5,403,853
Trade payables	12,292,600	15,313,273	2,710,092	4,154,652
Other taxes and social security costs	1,114,563	846,050	581,685	742,976
Other creditors	19,286,885	13,089,647	214,743	184,207
Accruals	7,384,607	4,285,781	5,823,650	3,707,483
	80,612,739	61,551,354	36,911,210	38,972,503

23. Loans and borrowings

Obligations under finance leases and hire purchase contracts

		Group		*Company*
	2013	*2012*	*2013*	*2012*
	£	*£*	*£*	*£*
Current				
Obligations under finance leases and hire purchase contracts (note 25)	599,701	376,636	–	–
Non-current				
Obligations under finance leases and hire purchase contracts (note 25)	5,463,676	3,024,304	–	–

Loans and other credit facilities

		Group		*Company*
	2013	*2012*	*2013*	*2012*
	£	*£*	*£*	*£*
Current				
KBC credit facility	46,366	2,619,568	–	–
Bank of Tokyo Mitsubishi – Credit Facility A	–	10,560,132	–	–
Bank of Tokyo Mitsubishi – Credit Facility B	–	1,637,230	–	–
IBM Loan	64,751	63,317	–	–
ABN AMRO	–	559,086	–	–
Other loans	752	11,100	752	1,861
	111,869	15,450,433	752	1,861
Non-current	–			
IBM loan	62,612	124,542	–	–
	62,612	124,542	–	–
			–	
Total loans and borrowings	6,237,858	18,975,915	752	1,861

Notes to the financial statements

at 31 December 2013

23. Loans and borrowings (continued)

Included within current liabilities	711,570	15,827,069	752	1,861
Included within non-current liabilities	5,526,288	3,148,846	–	–

24. Deferred revenue

		Group		Company
	2013	2012	2013	2012
	£	£	£	£
Long-term Service Agreements and Maintenance Agreements				
At 1 January	23,763,388	28,672,439	23,763,388	28,672,439
Deferred during the year	18,374,291	12,008,738	18,374,291	12,008,738
Released to the income statement	(23,205,473)	(16,545,311)	(23,205,473)	(16,545,311)
Exchange differences	123,463	(372,478)	123,463	(372,478)
At 31 December	19,055,669	23,763,388	19,055,669	23,763,388
Advances from Customers				
At 1 January	10,844,084	893,998	–	–
Deferred during the year	2,613,753	10,619,406	–	–
Released to the income statement	(9,280,339)	(643,669)	–	–
Exchange Differences	10,551	(25,651)	–	–
At 31 December	4,188,049	10,844,084	–	–
Total deferred income	23,243,718	34,607,472	19,055,669	23,763,388
Included within current liabilities	13,231,973	11,887,387	8,967,193	9,649,773
Included within non-current liabilities	10,011,745	22,720,085	10,088,476	14,113,615

Notes to the financial statements

at 31 December 2013

25. Lease Obligations

Obligations under finance leases

The group has finance leases and hire purchase contracts for various items of plant and machinery. These leases have terms of renewal but no purchase options and escalation clauses.

Future minimum lease payments under finance leases and hire purchase contract together with the present value of the net minimum lease payments are as follows:

		Group		*Company*
	2013	*2012*	*2013*	*2012*
	£	*£*	*£*	*£*
Future minimum payments due:				
Not later than one year	879,261	538,141	–	–
After one year but not more than five years	3,811,546	2,136,834	–	–
Later than 5 years	3,149,964	1,647,272	–	–
	7,840,771	4,322,247	–	–
Less finance charges allocated to future years	(1,777,394)	(921,307)	–	–
Present value of minimum lease payments	6,063,377	3,400,940	–	–

Obligations under operating leases

The group has entered into commercial operating leases on certain properties, motor vehicles and items of machinery.

These leases have an average duration of between 3 and 15 years. Only property lease agreements contain an option for renewal, with such options being exercisable three to twelve months before the expiry of the lease term at rentals based on market prices at the time of exercise. There are no restrictions placed upon the lessee by entering into these leases. The building in Maintenance Partners N.V. contains an option to extend the lease for a further five years.

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

		Group		*Company*
	2013	*2012*	*2013*	*2012*
	£	*£*	*£*	*£*
Not later than one year	2,014,863	2,238,038	1,490,453	1,490,280
After one year but not more than five years	6,388,307	7,511,551	4,865,048	5,311,399
After five years	3,803,493	4,172,910	–	27,612
	12,206,663	13,922,499	6,355,501	6,829,291

Notes to the financial statements

at 31 December 2013

26. Provisions

Provisions

Group	*Maintenance warranties Restated*	*Early retirement benefits Restated*	*Total*
	£	£	£
At 1 January 2012	631,507	553,352	1,184,859
Arising during the year	425,440	204,628	630,068
Utilised	(22,321)	(72,272)	(94,593)
Reversal of unused amounts	(365,609)	–	(365,609)
Exchange rate movements	(70,792)	25,791	(45,001)
At 1 January 2013	598,225	711,499	1,309,724
Arising during the year	766,992	216,832	983,824
Adjustment in respect of previous year	113,274	(113,274)	–
Utilised	(50,173)	(60,584)	(110,757)
Reversal of unused amounts	(90,354)	–	(90,354)
Exchange rate movements	(76,866)	1,004	(75,862)
At 31 December 2013	1,261,098	755,477	2,016,575
Analysed as:			
Current	1,261,098	–	1,261,098
Non-Current	–	755,477	755,477
At 31 December 2013	1,261,098	755,477	2,016,575
Analysed as:			
Current	598,225	–	598,225
Non-Current	–	711,499	711,499
At 1 January 2013	598,225	711,499	1,309,724

Maintenance warranties

Warranty claims are provided for based on past experience of the level of repairs and returns for the period of the contractual warranty which is normally not longer than 12 months. Assumptions used to calculate the provision for warranties were based on current sales levels and current information available about returns based on the warranty years for all products sold.

Early retirement obligations

The group's subsidiary in Belgium has an obligation due to local regulations to make payments to employees wishing to take up early retirement up until they reach state pensionable age. At that point the employees will switch to the state pension and payments from the company will cease.

The provision is calculated based on best estimates of the company's future payments to employees and taking into account the time value of money.

Notes to the financial statements

at 31 December 2013

27. Pensions

The group has a defined benefit pension plan in Maintenance Partners N.V covering all its employees. The plan requires contributions to be made to separately administered funds. The actuarial valuation is performed annually and the latest was performed as of 31 December 2013.

The following tables summarise the components of net benefit expense recognised in the income statements and the funded status and amounts recognised in the statements of financial position for the respective plan:

	2013	*2012 Restated*
	£	*£*
Net benefit expense:		
Current service cost (net of employee contributions)	(180,009)	(135,598)
Interest cost on benefit obligation	(27,590)	(21,119)
Benefit liability	(207,599)	(156,617)

Benefits paid are the sum of the benefits paid (or transferred) for participants who retired or left during the years and the decease premium paid by Maintenance Partners N.V to the insurer (risk premium).

Changes in the present value of the defined benefit obligation

	2013	*2012 Restated*
	£	*£*
Defined benefit obligation at 1 January	1,617,465	1,127,067
Interest cost	55,531	58,465
Current service cost (including employee contribution)	180,009	135,598
Participants' contributions	36,418	40,997
Benefits paid	(92,008)	(68,097)
Actuarial (gains)/losses on obligation	(180,051)	348,857
Exchange differences	36,641	(25,422)
Defined benefit obligation at 31 December	1,654,005	1,617,465

Changes in fair value of plan assets

	2013	*2012 Restated*
	£	*£*
Fair value of plan assets at 1 January	872,034	806,101
Expected return	27,941	37,346
Contributions by employer (including employee contribution)	106,920	85,176
Participants' contributions	36,418	40,997
Benefits paid	(92,023)	(68,098)
Actuarial (loss)/gain in the year	3,496	(2,975)
Exchange differences	18,456	(26,513)
Defined benefit obligation at 31 December	973,242	872,034

Notes to the financial statements

at 31 December 2013

27. Pensions (continued)

Employee benefit liability

	2013	2012 Restated
	£	£
Opening balance at 1 January	745,431	320,966
Current service cost	180,009	135,598
Interest expense	27,590	21,119
Benefits paid	(106,920)	(85,176)
Actuarial (loss)/gain in the year	(183,547)	351,832
Exchange differences	18,200	1,092
Defined benefit obligation at 31 December	680,763	745,431

The principal assumptions used in determining pension benefit obligations for the group's plan are shown below:

	2013	2012
Discount rate	3.50%	3.00%
Inflation	2.00%	2.00%
Annual rate of salary increase (inflation included)	3.50%	3.50%
Mortality tables:		
Male	MR-5	MR-5
Female	FR-5	FR-5
Disability table	None	None
Estimated age at retirement	65	65

Turnover is at 5% per year from affiliation till age 35 with no turnover expected after the age of 35.

The discount rate reflects the yield on high quality long-term corporate bonds at the valuation date with the same duration as the pension liabilities.

The assets consist of the mathematical reserves and profit sharing reserves of the group insurance (financed by both the employer's and the employee's premiums) and the assets of the financing funds.

The major categories of the plan assets as a percentage of the fair value of the total plan assets are as follows:

Categories of plan assets:

	2013	2012
	£	£
Other	100%	100%

Notes to the financial statements

at 31 December 2013

27. Pensions (continued)

Defined contributions pension

The group operate a defined contribution pension scheme, the Mitsubishi Power Systems Europe Group Personal Pension Plan for its employees in the United Kingdom, which is with Aviva and is approved under Schedule IV Part XIV of the Income and Corporation Taxes Act 1988. The cost to the group as at 31 December 2013 was £187,115 (2012 – £159,280). The group also participated in a defined contribution pension scheme, Personal Retirement Saving Accounts (PRSAs), in Ireland, which is with Eagle Star Life Assurance/Zurich. The cost to the group as at 31 December 2013 was £5,169 (2012 – £7,001). In Italy the group has a defined contribution pension scheme with Previndai. The cost to the group as at 31 December 2013 was £20,313 (2012 – £15,717). In Belgium, group has only a defined benefit pension scheme and the cost of the defined contribution pension scheme to the group as nil for both financial years ending 31 December 2012 and 2013.

28. Share capital

		2013		2012
Authorised	*No.*	*£*	*No.*	*£*
Ordinary shares of £0.3 each (2012 £1 each)	69,243,950	20,773,185	67,748,768	67,748,768

		2013		2012
Allotted, called up and fully paid	*No.*	*£*	*No.*	*£*
Ordinary shares				
At 1 January (of £1 each)	67,748,768	67,748,768	57,530,600	57,530,600
Issued during the year	1,495,182	1,495,182	10,218,168	10,218,168
Capital reduction of 70% per share	–	(48,470,765)	–	–
At 31 December (of £0.3 each)	69,243,950	20,773,185	67,748,768	67,748,768

Notes to the financial statements

at 31 December 2013

29. Reconciliation of movements in equity

Group	*Equity share capital*	*Currency translation*	*Retained earnings*	*Total equity holders of parent*
	£	*£*	*£*	*£*
At 1 January 2012	57,530,600	(2,539,249)	5,816,483	60,807,834
Restatement	–	–	2,399	2,399
At 1 January 2012 restated	57,530,600	(2,539,249)	5,818,882	60,810,233
Share capital issued in the year	10,218,168	–	–	10,218,168
Loss for the year	–	–	(2,044,490)	(2,044,490)
Other comprehensive income	–	(457,151)	(351,832)	(808,983)
At 1 January 2013	67,748,768	(2,996,400)	3,422,560	68,174,928
Other comprehensive income	–	637,442	183,547	820,989
Share capital issued in the year	1,495,182	–	–	1,495,182
Capital reduction	(48,470,765)	–	48,470,765	–
Transfer of wind business	–	(19,325)	(16,734,794)	(16,754,119)
Payment of dividends	–	–	(3,600,000)	(3,600,000)
Total recognised income and expense for the year	–	–	(23,697,702)	(23,697,702)
At 31 December 2013	20,773,185	(2,378,283)	8,044,376	26,439,278

Transfer of wind business and cash transfer to MHIE

On the 1st December 2013 MPSE transferred its Renewable energy division (based in London and Edinburgh) and the Hamburg Wind Turbine office to MHIE. The transfer price was settled by the payment of a dividend in specie by MPSE to MHIE.

On the 6th December Mitsubishi Power Systems Europe Limited (MPSE) transferred a 100% shareholding in its subsidiary Artemis Intelligent Power Limited to MHIE at its book value of £19m. The transfer price was settled by the payment of a dividend in specie by MPSE to MHIE and in addition MPSE paid MHIE a £3.6m cash dividend.

Company	*Equity share capital*	*Currency translation*	*Retained earnings*	*Total equity holders of parent*
	£	*£*	*£*	*£*
At 1 January 2012	57,530,600	120,469	16,525,583	74,176,652
Share capital issued in the year	10,218,168	–	–	10,218,168
Total recognised income and expense for the year	–	(188,400)	5,558,003	5,369,603
At 1 January 2013	67,748,768	(67,931)	22,083,586	89,764,423
Share capital issued in the year	1,495,182	–	–	1,495,182
Transfer of wind business	–	–	(24,727,376)	(24,727,376)
Capital reduction	(48,470,765)	–	48,470,765	–
Total recognised income and expense for the year	–	332,145	294,075	626,220
At 31 December 2013	20,773,185	264,214	46,121,050	67,158,449

Notes to the financial statements

at 31 December 2013

29. Reconciliations of movement in equity (continued)

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign branches.

30. Related party transactions

Entities with significant influence over the group

Mitsubishi Heavy Industries Europe Limited (MHIE) owns 100% of the ordinary shares of Mitsubishi Power Systems Europe Limited. Mitsubishi Heavy Industries Limited owns 100% of the ordinary shares of Mitsubishi Heavy Industries Europe Limited.

Terms and conditions of transactions with related parties

Sales and purchases between related parties are made at arms length. Outstanding balances with entities other than subsidiaries are unsecured, interest free and cash settlement is expected between 30 and 180 days of the invoice. Terms and conditions for transactions with subsidiaries are the same, with the exception that balances are placed on intercompany financial statements with no specified credit year. The company has not provided or benefited from any guarantees for any related party receivables or payables. During the year ended 31 December 2013, the company has not made any provision for doubtful debts relating to amounts owed by related parties (2012 – £nil).

During the year the company entered into transactions, in the ordinary course of business, with other related parties. Those transactions with directors are disclosed below. Transactions entered into, and trading balances outstanding at 31 December with other related parties, are as follows:

Group	*Sales to related party* £	*Purchases from related party* £	*Amounts owed by related party* £	*Amounts owed to related party* £
Related party				
Entities with significant influence over the group				
2013	38,140,013	20,405,923	3,068,529	39,827,868
2012	25,239,559	51,737,485	7,755,720	25,877,832
Other related parties				
2013	2,252,841	9,079,416	12,283,171	706,216
2012	5,038,898	8,374,411	22,260,065	2,138,771

Company	*Sales to related party* £	*Purchases from related party* £	*Amounts owed by related party* £	*Amounts owed to related party* £
Related party				
Entities with significant influence over the company				
2013	15,309,712	20,301,202	997,754	25,027,291
2012	14,260,701	51,622,882	4,736,674	24,779,332

Notes to the financial statements

at 31 December 2013

30. Related party transactions (continued)

Other related parties				
2013	1,275,645	9,079,416	12,397,498	2,553,749
2012	1,514,007	8,368,036	21,156,469	5,403,853

Terms and conditions of transactions with related parties (continued)

Name of company	*Holding*	*Proportion of voting rights and shares held*	*Nature of business*
Subsidiary undertakings			
Maintenance Partners, N.V.	Ordinary	100%	Parent undertaking
Maintenance Partners The Netherlands N.V.	Ordinary	100%	Service and repair of rotating machines
Maintenance Partners Wallonie S.A.	Ordinary	100%	Service and repair of rotating machines
Electromotorenfabriek Zuid-Nederland BV	Ordinary	100%	Service and repair of rotating machines
Eric Spoor Consultants BV	Ordinary	100%	Payroll company
Maintenance Partners Morocco	Ordinary	100%	Service and repair of rotating machines
J.Blokland N.V	Ordinary	100%	Spare parts manufacturing and re-engineering
MHI Power Systems Egypt LLC	Ordinary	100%	Maintenance of power plants
MHI Engineering Vienna GmbH	Ordinary	100%	Engineering and procurement of power systems
MHI Power Systems Europe Belgium N.V	Ordinary	100%	Maintenance of power plants
MHI Power Systems Europe Romania	Ordinary	100%	Maintenance of power plants

In December 2013, Mitsubishi Hitachi Power Systems Europe Ltd disposed the investment of Artemis Intelligent Power Limited to Mitsubishi Heavy Industries Europe, Ltd.

Notes to the financial statements

at 31 December 2013

30. Related party transactions (continued)

Compensation of key management personnel (including the director)

	Group		*Company*	
	2013	*2012*	*2013*	*2012*
	£	*£*	*£*	*£*
Short-term employee benefits	238,537	378,049	238,537	378,049

At year end all key management personnel are the directors of the company and none were participants of defined benefit pension schemes. The highest paid director during the financial year earned £238,537 and £204,659 last year.