# Schrader Electronics Limited

## Annual Report and Financial Statements

31 December 2018

Registered number: NI025720

**Director**
C Beddow
J Cote

**Auditor**
Ernst & Young LLP
Bedford House
16 Bedford Street
Belfast BT2 7DT

**Bankers**
Bank of America
2 King Edward Street
London

**Registered Office**
11 Technology Park
Belfast Road
Antrim BT41 1QS

# Strategic report

The directors presents their strategic report and the financial statements for the year ended 31 December 2018.

## Principal activity and review of the business

The principal activity of the company throughout the year continued to be the development and manufacture of Remote Tyre Pressure Monitor Systems ("RTPMS") and other electronic sensing technologies for use in the automotive industry.

The company's ultimate parent undertaking is Sensata Technologies Holding plc.

The Company's financial statements are presented in DollarsSterling and all values are rounded to the nearest thousand dollars ($000) except when otherwise indicated. During the year, the company changes its functional currency to dollars as a result of the Parent company redomiciling to the United Kingdom and a significant intercompany refinancing which resulted in USD being the currency of the primary economic environment in which the entity operates. The 2017 comparatives have been represented in USD for comparability purposes.

### Market overview

In 2018 global car and light vehicle sales contracted by 0.5% to 86m vehicles, the first fall in volumes since 2009. SUV and electric cars showed the strongest growth with the latter increasing by 74%. Globally, sales declined by 0.2% in North America (20.9m), and 1.1% in the EMEA (22.7m), with the sharpest decline of 2.8% in the China market (28.1m). Other Asia regions and South America have continued to show YOY growth. Many of the car makers felt the effects of trade tensions and tariff introductions between the US and China, and political changes in key markets, driven by Brexit and complex environmental regulations, have resulted in a great deal of uncertainty.

The outlook for 2019 is for further stagnation in the US market, continued decline in Europe due to political uncertainties and further softening in the China market in the face of increasing tariffs between the US and China. Globally, sales are forecast to decline by 4 million vehicles.

### Key performance indicators and financial review

Sales during the year decreased by 2% from $429.6 million in 2017 to $418.9 million in 2018. Cost of Sales of $281.7m decreased by 3% compared to the previous year (2017 - $291.6m), resulting in an increased gross margin of 33% (2017 – 32%). This cost decrease was driven by a combination of increased productivity and a reduction in the purchasing price of components. Distribution costs fell from $9.3m in 2017 to $6.7m in 2018 due to a reduction in freight and warehousing costs. Administrative expenses in the period increased to $42.6m (2017 - $40m)

Research and development remains an important area of focus to the company as it continues to develop its RTPMS and related products. During 2018, the company's expenditure on research and development increased further to $26.4m million (2017 – $23.7 million). This was due mainly to an increase in internal and contract labour costs.

Capital expenditure in the period decreased to $5.6 million (2017 – $6.6 million) and represented 0.5 times depreciation (2017 – 0.7 times). The majority of the capital expenditure in the year was in relation to maintaining the manufacturing capacity.

Schrader Electronics Limited is an award winning company for Health, Safety and Environmental Management.

The Company is certified to OHSAS18001 Safety Management System and ISO14001 Environmental Management System.

## Principal risks and uncertainties

### Risk of increased competition from low-cost producers

Many of the company's end markets are highly competitive. If the company is unable to continue to provide better quality products or to match the prices of low-cost suppliers, there is a risk that customers will switch to those suppliers, causing a loss of market share and consequent reductions in sales and margins. The company responds to competitive pressures through lean initiatives and enhancing its sourcing strategies.

# Strategic report

### Risk of product liability claims

Due to the nature of its products, the company faces an inherent risk of product liability claims if failure results in any claim for injury or consequential loss. Litigation is inherently unpredictable and these claims, regardless of their outcome, may be costly, divert management attention and adversely affect our reputation. The company minimises this risk by using thorough screening procedures for new suppliers and implementing rigorous quality programmes in its plants.

### Financial instruments

The company's principal financial instruments comprise cash, trade debtors and creditors, group indebtedness, and certain other debtors and accruals. The main risks associated with these financial assets and liabilities are set out below:

***Foreign currency risk***

The company enters into sales and purchases in the normal course of its business that are denominated in foreign currencies. The company does not use derivative financial instruments, instead relying on the company's parent to organise such transactions and manage any exposure to exchange rate movements on day-to-day business transactions denominated in foreign currencies.

***Credit risk***

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The company is exposed to credit risk principally in relation to its trade debtors, for which an appropriate allowance is made in arriving at the carrying value in the financial statements.

***Debt service and interest rate risk***

The company has no external borrowings and is not exposed to debt service risk or significant interest rate risk.

***Changes in environment.***

The directors do not expect any significant change in the company's environment. It is also not anticipated that the company will be significantly impacted by the upcoming departure of the UK from the European Union.

Approved by the Board on 10 October 2019 and signed on its behalf by:

Claire B

C Beddow
Director

Registered No. NI 025720

# Directors' report

The directors presents their report and financial statements for the year ended 31 December 2018.

## Results and dividends

The profit for the year after taxation amounted to $83.3m (2017 – profit of $79.8m). The directors do not recommend a final dividend (2017 – $nil).

## Going concern

Based on internal forecasts and projections that take into account reasonably possible changes in the company's trading performance, the directors believe that the company has adequate financial resources to continue in operation for the foreseeable future. Accordingly, the directors continue to adopt the going concern basis in preparing the company's financial statements.

## Directors

The directors who served the company during the year and to the date of this report were as follows:

G M Thompson (resigned April 2019)
C Beddow (appointed April 2019)
J Cote (appointed April 2019)

## Disabled employees

The company gives sympathetic consideration to applications for vacancies from disabled persons when particular job requirements are considered to be within their capabilities. The company also endeavours to provide equal opportunity in the training, promotion and career development of disabled persons.

## Employee involvement

The company recognises the value of comprehensive employment policies designed to identify employees with the achievements of the company and to determine ways in which their knowledge and skills can best contribute towards its success.

The company regularly consults with employees, and continues to encourage employee involvement and to develop communication programmes. These programmes provide employees with information of concern to them as employees and information affecting the performance of the company.

## Policy and practice on payment of creditors

The company's policy is to determine terms and conditions of payment with suppliers when negotiating each transaction ensure that suppliers are made aware of the agreed terms and how disputes are to be settled and to abide by the terms of payment.

## Disclosure of information to the auditor

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.

# Directors' report

### Auditor

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

On behalf of the Board

Claire B

C Beddow
Director

10 October 2019

# Directors' Responsibilities Statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including FRS 101 'Reduced Disclosure Framework'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SCHRADER ELECTRONICS LIMITED

### Opinion

We have audited the financial statements of Schrader Electronics Limited for the year ended 31 December 2018 which comprise the Income Statement, the Statement of comprehensive income, the Statement of changes in equity, the Balance Sheet and the related notes 1 to 25, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern

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

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

### Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SCHRADER ELECTRONICS LIMITED (continued)

### Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and director's report have been prepared in accordance with applicable legal requirements.

### Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or director's report.

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

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

### Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

### Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the

Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

### Use of our report

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

Ernst & Young LLP

*Michael Kidd (Senior statutory auditor)*

*for and on behalf of Ernst & Young LLP, Statutory Auditor*

*Belfast*

11 October 2019

# Income Statement

**for the year ended 31 December 2018**

| | Notes | *2018* *$000* | *2017* *$000* |
|---|---|---|---|
| ***Turnover*** | 3 | 418,929 | 429,591 |
| Cost of sales | | (281,716) | (291,620) |
| ***Gross Profit*** | | 137,213 | 137,971 |
| Distribution costs | | (6,745) | (9,323) |
| Administrative expenses | | (42,601) | (40,210) |
| ***Operating Profit*** | 4 | 87,867 | 88,438 |
| Restructuring Expenses | | - | - |
| Interest receivable on loans to group undertakings | | 7,852 | 462 |
| Interest payable and similar charges | 8 | (280) | (2) |
| ***Profit on ordinary activities before taxation*** | | 95,439 | 88,899 |
| Tax | 9 | (12,166) | (9,137) |
| ***Profit for the financial year*** | | 83,273 | 79,762 |

All amounts relate to continuing activities.

# Statement of Comprehensive Income

**for the year ended 31 December 2018**

There are no comprehensive gains or losses other than the profit attributable to the shareholders of the company of $83.3m in the year ended 31 December 2018 (2017 – profit of $79.8m).

# Statement of changes in equity

**For the year ended 31 December 2018**

| | *Share Capital* | *Share Premium* | *Share Option Reserve* | *Capital Reduction Reserve* | *Retained Earnings* | *Total* |
|---|---|---|---|---|---|---|
| | *$000* | *$000* | *$000* | *$000* | *$000* | *$000* |
| As at 1 January 2017 | 3,447 | 898 | | - | 223,105 | 227,449 |
| Profit for the financial year | - | - | | - | 79,762 | 79,762 |
| As at 31 December 2017 | 3,447 | 898 | - | - | 302,867 | 307,211 |
| Profit for the financial year | - | - | | | 83,273 | 83,273 |
| Share Issue | 370,000 | - | - | - | (370,000) | - |
| Share Based Payments | - | - | 1,263 | - | - | 1,263 |
| Capital Reduction | (373,447) | (898) | - | 239 | 374,105 | - |
| Dividend Distribution | - | - | - | | (285,000) | (285,000) |
| | - | - | 1,263 | 239 | 105,245 | 106,747 |

Share capital includes the nominal value on issue of the Company's equity share capital, comprising £0.00000001 ordinary shares.

The Capital reduction reserve was created following a capital reduction in the year, whereby the nominal value per share was reduced from £1 to £0.00000001 and the share premium cancelled. The share premium included the premium proceeds on top of the nominal value of issue of the Company's equity share.

Profit and loss account represents the reserves earned by the Company in the period.

The Share Option Reserve includes a contribution of equity from the company's ultimate parent, Sensata Technologies Holding plc, following the provision of equity settled share based payments in the year.

# Balance sheet

**at 31 December 2018**

| | Notes | 2018 $000 | 2017 $000 |
|---|---|---|---|
| ***Fixed assets*** | | | |
| Investments | 10 | 34 | 34 |
| Intangible assets | 11 | 136 | 226 |
| Tangible assets | 12 | 39,886 | 49,728 |
| | | 40,056 | 49,988 |
| ***Current assets*** | | | |
| Stocks | 13 | 26,429 | 37,123 |
| Debtors due within one year | 14 | 297,272 | 921,353 |
| Corporation tax debtor | 14 | - | 3,613 |
| Debtors due after more than one year | 14 | 13,701 | 140,283 |
| Cash at bank and in hand | | 2,957 | 5,428 |
| | | 340,359 | 1,107,800 |
| ***Creditors:*** amounts falling due within one year | 15 | (270,053) | (844,961) |
| ***Net current assets*** | | 70,305 | 262,839 |
| ***Total assets less current liabilities*** | | 110,362 | 312,827 |
| ***Provisions for liabilities*** | 16 | (1,434) | (2,902) |
| ***Deferred income*** | 19 | (2,181) | (2,713) |
| ***Net assets*** | | 106,747 | 307,212 |
| ***Capital and reserves*** | | | |
| Called up share capital | 17 | - | 3,447 |
| Share premium account | | - | 898 |
| Share option reserve | 7 | 1,263 | - |
| Capital reduction reserve | | 239 | - |
| Profit and loss account | | 105,245 | 302,867 |
| ***Shareholders' funds*** | 18 | 106,747 | 307,212 |

The financial statements of Schrader Electronics Limited (registered number: NI025720) were approved for issue by the board of directors on 10 October 2019 and signed on its behalf by:

Claire BC

C Beddow

Director

# Notes to the financial statements

**at 31 December 2018**

## 1. Authorisation of financial statement and statement of compliance with FRS 101

The financial statements of Schrader Electronics Limited (the "Company") for the year ended 31 December 2018 were authorised for issue by the board of directors on 10 October 2019 and the balance sheet was signed on the board's behalf by Claire Beddow. Schrader Electronics Limited is incorporated and domiciled in Northern Ireland.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with applicable accounting standards.

The Company's financial statements are presented in Dollars and all values are rounded to the nearest thousand dollars ($000) except when otherwise indicated. During the year, the company changes its functional currency to dollars as a result of the Parent company redomiciling to the United Kingdom and a significant intercompany refinancing which resulted in USD being the currency of the primary economic environment in which the entity operates. The 2017 comparatives have been represented in USD for comparability purposes.

The Company has taken advantage of the exemption under s400 of the Companies Act 2006 not to prepare consolidated accounts as it is a wholly owned subsidiary of Sensata Technologies Holdings plc.

The principal accounting policies adopted by the Company are set out in note 2.

## 2. Accounting policies

### *2.1 Basis of preparation*

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2018.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

(c) The requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement

(d) The requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:

(i) paragraph 79(a)(iv) of IAS 1;

(ii) paragraph 73(e) of IAS 16 Property, Plant and Equipment;

(iii) paragraph 118(e) of IAS 38 Intangible Assets;

(e) The requirements of paragraphs 10(d), 10(f), 39(c) and 134-136 of IAS 1 Presentation of Financial Statements;

(f) The requirements of IAS 7 Statement of Cash Flows;

(g) The requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;

(h) The requirements of paragraph 17 of IAS 24 Related Party Disclosures;

(i) The requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member ; and

(h) The requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.

# Notes to the financial statements

**at 31 December 2018**

## 2. Accounting policies (continued)

IFRS Improvement 2014 – 2016 Cycle, Amendments to IAS 7 – Disclosure Initiative and Amendments to IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses were effective for periods beginning on or after 1 January 2017. None of these amendments or improvements have a material, if any, impact on the annual financial statements of the Company for the year ended 31 December 2018.

### *2.2 Judgements and key sources of uncertainty*

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

The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements:

***Leases***

The Company has entered into commercial property leases as lessor on its property portfolio and as a lessee it obtains the use of property, plant and equipment. The classification of such leases as operating or finance lease requires the Company to determine, based on an evaluation of the terms and conditions of the arrangements, whether it retains or acquires the significant risks and rewards of ownership of these assets and accordingly whether the lease requires an asset and liability to be recognised in the balance sheet. Operating lease rentals are charged to the profit and loss account on a straight-line basis over the terms of the leases.

***Warranty provision***

Provision for the expected costs of warranty obligations requires estimation of the costs to settle the obligations. The Company uses all available information including defects rates, estimated costs to repair and settlement rates. See note 16 for further details.

### *2.3 Significant accounting policies*

***New Accounting Standards Effective In the Current Year***

In May 2014, the IASB issued IFRS *Revenue from Contracts with Customers,* which modifies how all entities recognise revenue and applies to all revenue arising from contracts with customers. We adopted IFRS 15 on 1 January 2018 using the modified retrospective transition method. There was no impact on our financial statements of this adoption.

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments,* bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 revises the accounting model used for classification and measurement of financial assets and liabilities, impairment of financial instruments, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. The transition to IFRS 9 differs by section, and is partly retrospective and partly prospective. IFRS 9 must be applied in its entirety. We adopted IFRS 9 on 1 January 2018.

# Notes to the financial statements

**at 31 December 2018**

## 2. Accounting policies (continued)

**2.3 Significant accounting policies (continued)**

The impact on our financial instruments upon implementation of IFRS 9 are as follows:

- Trade accounts receivable are initially measured at transaction price in accordance with IFRS 15, and are subsequently measured at amortised cost, with impairment (calculated as lifetime expected credit losses) recorded through the statement of income each period. We record losses on our trade accounts receivable periodically. The method we have historically used for this calculation is materially consistent with the concept of lifetime expected credit losses, and no adjustment was made to beginning retained earnings at 1 January 2018 to reflect this adoption.

Amounts owed by group undertakings are initially recognised at fair value. As such, the accounting treatment has not been materially impacted by the adoption of IFRS 9 and these continue to be recognised initially at fair value.

Certain additional disclosures as required by IFRS 9 are included in these financial statements, to the extent they are material.

Other new accounting standards that were effective in the current year are not applicable to Schrader Electronics Limited or do not have a material input on our financial position or performance.

***Going concern***

The financial statements have been prepared on a going concern basis for the reasons explained in the Director's report and under the historical cost convention in accordance with the applicable law and United Kingdom accounting standards.

***Turnover***

Turnover comprises sales in the ordinary course of business to customers for goods supplied and services provided, net of trade discounts, and value added tax and other sales-related taxes. The sale is recognised only where there is persuasive evidence of a sales agreement, the delivery of goods has occurred, the sale price is fixed or determinable and the collectability of revenue is reasonably assured.

***Government grants***

Government grants relating to tangible fixed assets are treated as deferred income and credited to the profit and loss account in equal instalments over the expected useful economic lives of the assets to which the grants relate. Other grants are credited to the profit and loss account over the life of the project to which they relate.

***Stocks***

Stocks are valued at the lower of cost and net realisable value, with due allowance for any obsolete or slow moving items. Net realisable value is the estimated selling price less cost to complete and sell. Work in progress and finished goods held for resale include an appropriate proportion of overhead expenses.

***Intangible fixed assets***

Software is included at cost and is amortised in equal instalments over the duration of the software. Provision is made for any impairment.

***Research and development***

Expenditure on research and development is expensed in the period in which it is incurred.

# Notes to the financial statements

**at 31 December 2018**

## 2. Accounting policies (continued)

***2.3 Significant accounting policies (continued)***

***Investments***

Investments in subsidiaries are stated at cost less provision for any impairment.

***Tangible fixed assets***

Depreciation of other tangible fixed assets is provided on the straight-line basis over their anticipated useful lives as follows:

| | | |
|---|---|---|
| Freehold buildings | – | 25 years |
| Plant, equipment and machinery | – | 3 to 10 years |

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

***Financial instruments***

***i) Financial assets***

***Initial recognition and measurement***

On January 1 2018, the Company adopted IFRS 9 which revises the accounting model used for the classification and measurement of financial assets and liabilities, impairment of financial instruments and hedge accounting.

As the Company's financial assets are amounts owed by group undertakings, the accounting treatment has not been materially impacted by the adoption of IFRS 9 and these assets continue to be recognized initially at fair value. The classification of a financial asset is made at the time it is initially recognized.

***Subsequent measurement***

The measurement of financial assets depends on their classification as follows:

***Loans and receivables***

Loans and receivables are subsequently measured at amortised cost using the effective interest method in accordance with IFRS 9.

***Derecognition***

A financial asset is primarily derecognised when

- The rights to receive cash flows from the asset have expired

Or

- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

# Notes to the financial statements

**at 31 December 2018**

## 2. Accounting policies (continued)

***2.3 Significant accounting policies (continued)***

### *(ii) Financial liabilities*

***Initial recognition and measurement***
The basic accounting model for financial liabilities under IFRS 9 has not changed from IAS 39.

The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value.

***Subsequent measurement***
The measurement of financial liabilities depends on their classification as follows:

***Interest bearing loans and borrowings***
Obligations for loans and borrowings are recognised when the Company becomes party to the related contracts and are measured initially at the fair value of consideration received less directly attributable transactions costs.

After initial recognition, interest bearing loans, borrowings and borrowing costs are subsequently measured at amortised cost using the effective interest method.

Gains and losses arising on the repurchase, settlement or otherwise cancellation of liabilities are recognised respectively in finance revenue and finance costs.

***Derecognition of financial liabilities***
A liability is generally derecognised when the contract that gives rise to it is settled, sold, cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in profit or loss.

***Fair value of financial instruments***
Fair value amounts disclosed in these financial statements represent the company's estimate of the price at which a financial instrument could be exchanged in a market in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. They are point-in-time estimates that may change in subsequent reporting periods due to market conditions or other factors. Fair value is determined by reference to quoted prices in the most advantageous active market for that instrument to which the company has immediate access. However, there is no active market for most of the company's financial instruments, so the company determines fair value based on internal or external valuation models, such as stochastic models, option-pricing models and discounted cash flow models. These calculations represent management's best estimates based on a range of methods and assumptions. Since they are based on estimates, the fair values may not be realised in an actual sale or immediate settlement of the instruments.

# Notes to the financial statements

**at 31 December 2018**

## 2. Accounting policies (continued)

***2.3 Significant accounting policies (continued)***

***Foreign currencies***

Transactions denominated in foreign currencies are translated into sterling at the exchange rate ruling on the date of the transaction or, if hedged, at the exchange rate specified in the related foreign currency contract.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rate ruling on the balance sheet date or, if hedged, at the exchange rate specified in the related foreign currency contract.

Currency translation differences are recognised in the profit and loss account.

***Derivative financial instruments***

The company does not use derivative financial instruments, instead relying on the company's parent to organise such transactions and manage any exposure to exchange rate movements on day-to-day business transactions denominated in foreign currencies

***Pensions***

The company provides defined contribution pension benefits to its employees.

The cost of providing these benefits represents the company's contributions to the plan and is recognised in the profit and loss account in the period in which the contributions fall due.

***Share Based Payments***

The company provides equity settled share based payments in respect of restricted stock units (RSUs) in the ultimate parent company to certain employees and directors. RSU are valued using the closing price of the ultimate parent company's ordinary shares on the NYSE on the grant date. Certain of our restricted securities include performance conditions that require us to estimate the probable outcome of the performance condition. A share based charge cost is recorded if it is probable that the performance condition will be achieved, with a corresponding increase in equity. We recognise share based payments net of estimated forfeitures. Accordingly, we only recognise compensation cost for those award expected to vest over the requisite service period. Compensation expense recognised for each award ultimately reflects the number of units that actually vest.

***Provisions***

Provision is made for warranty claims when the relevant products are sold, based on historical experience of the nature, frequency and average cost of warranty claims.

**Leases**

Assets held under finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease, with a corresponding liability being recognised for the lower of the fair value of the leased asset and the present value of the minimum lease payments. Lease payments are apportioned between the reduction of the lease liability and finance charges in the income statement so as to achieve a constant rate of interest on the remaining balance of the liability. Assets held under finance leases are depreciated over the shorter of the estimated useful life of the asset and the lease term.

Leases where the lessor retains a significant portion of the risks and benefits of ownership of the asset are classified as operating leases and rentals payable are charged in the income statement on a straight line basis over the lease term.

***Income taxes***

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

# Notes to the financial statements

**at 31 December 2018**

## 2. Accounting policies (continued)

### *2.3 Significant accounting policies (continued)*

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

### *Significant New Accounting Standards Effective in Future Years*

In January 2016, the IASB issued IFRS 16 *Leases*, which establishes new accounting and disclosure requirements for leases. IFRS 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under IAS 17 *Leases*. Entities may elect to account for certain short-term or low-value using a method similar to the current operating lease model. For all other leases, at the commencement date of a lease, a lessee will recognise a liability to make lease payments (a lease liability) and an asset representing the right to use the underlying asset during the lease term (a right-of-use asset). Lessees are required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

IFRS 16 is effective for annual periods on or after 1 January 2019. IFRS 16 may be applied using either a full retrospective approach. We developed an implementation plan to adopt this guidance, which included an assessment of its impact on our financial position. However, the amount recorded will not be material in relation to our consolidated statements of financial position. At 31 December 2018 we are contractually obliged to make future payments of $1.4 million under out operating lease obligations in existence as of that date, primarily recorded to long-term facility leases.

In June 2017, the IASB issued IFRIC Interpretation 23 *Uncertainty Over Income Tax Treatments* which clarifies application of the recognition and measurement requirements in IAS 12 *Income Taxes* when there is uncertainty over income tax treatments. IFRIC Interpretation 23 is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted. We are currently evaluating the impact that IFRIC Interpretation 23 will have on our consolidated financial statements.

## 3. Turnover

The company's activities consist of the development and manufacture of remote tyre pressure monitors and other electronic sensing technologies.

An analysis of turnover by geographical market is given below:

| | *2018* | *2017* |
|---|---|---|
| | *$000* | *$000* |
| US | 214,296 | 171,836 |
| Europe | 148,406 | 150,357 |
| Rest of the world | 56,227 | 107,398 |
| | 418,929 | 429,591 |

# Notes to the financial statements
**at 31 December 2018**

## 4. Operating Profit
This is stated after charging:

| | 2018<br>$000 | 2017<br>$000 |
|---|---|---|
| Depreciation of owned fixed assets | 10,892 | 10,974 |
| Amortisation of intangible assets | 163 | 624 |
| Research and development expenditure expensed | 26,366 | 23,705 |
| Operating lease rentals – land and buildings | 1,150 | 983 |
| Government grants | (721) | (880) |
| Cost of stocks recognised as an expense | 202,436 | 205,122 |
| Net foreign currency translation differences | 1,567 | (1,028) |

Fees payable to the company's auditors, in respect of the audit of the company's financial statements were $88,000 (2017 – $85,000).

There were no fees payable to the auditors and its affiliates for non-audit services (2017 - $39,000).

## 5. Director's remuneration

| | 2018<br>$000 | 2017<br>$000 |
|---|---|---|
| Remuneration | 345 | 361 |
| Company contributions to defined contribution pension plans | 22 | 19 |
| | 367 | 379 |

Remuneration of the highest paid director.

| | 2018<br>$000 | 2017<br>$000 |
|---|---|---|
| Remuneration | 345 | 361 |
| Company contributions to defined contribution pension plans | 22 | 19 |
| | 367 | 379 |

During the current and previous year, 1 (2017 – 1) director received retirement benefits under defined contribution pension plans.

# Notes to the financial statements

**at 31 December 2018**

## 6. Staff costs

| | *2018* | *2017* |
|---|---|---|
| | *$000* | *$000* |
| Wages and salaries | 57,287 | 57,254 |
| Social security costs | 5,347 | 5,447 |
| Defined contribution pension plan | 1,987 | 1,554 |
| | 64,621 | 64,254 |

The average monthly number of employees (including executive director) during the year was made up as follows:

| | *No.* | *No.* |
|---|---|---|
| Production | 744 | 960 |
| Selling and distribution | 36 | 35 |
| Administration | 418 | 392 |
| | 1,198 | 1,387 |

At the balance sheet date, the company had not paid to the defined contribution pension plan contributions due amounting to $182,426 (2017 – $250,389).

## 7. Share Based Payments

In April 2018, the company made share equity payments in respect of restricted stock units (RSU) to certain employees and directors. Each unit represented the right to receive one ordinary share in the company's ultimate parent company, Sensata Technologies Holding plc. The vesting of the RSUs were subject to the fulfilment of various performance conditions.

| | Number of Options | Weighted Average Exercise Price Per Option ($) | Share Option Reserve Value ($'000) |
|---|---|---|---|
| Balance as at 31st December 2017 | 29,254 | 35.22 | 1,030 |
| Granted in period | 4,480 | 51.83 | 232 |
| Balance as at 31st December 2018 | 33,734 | 37.43 | 1,263 |
| Options vested as at 31st December 2018 | 14,758 | | 764 |
| Options expected to vest as at 31st December 2018 | 18,976 | | 498 |

Performance RSU awards vest three years after the grant date.

# Notes to the financial statements

**at 31 December 2018**

## 8. Interest payable and similar charges

| | 2018 $000 | 2017 $000 |
|---|---|---|
| Interest payable to other group companies | 280 | 2 |
| | 280 | 2 |

## 9. Tax

(a) Tax on profit on ordinary activities

The tax charge is made up as follows:

| | 2018 $000 | 2017 $000 |
|---|---|---|
| ***Current tax:*** | | |
| UK corporation tax on the profit for the year | 12,889 | 9,250 |
| Adjustment in respect of prior years | (804) | 1,008 |
| Total current tax | 12,085 | 10,258 |
| ***Deferred tax:*** | | |
| Timing differences arising in the year | (1,531) | (1,252) |
| Adjustment in respect of prior years | 1,452 | (16) |
| Effect of change in tax rate on deferred tax assets | 161 | 147 |
| Total deferred tax (note 8(c)) | 81 | (1,161) |
| Tax on profit on ordinary activities (note 8(b)) | 12,166 | 9,137 |

(b) Factors affecting the current tax charge for the year

The charge for the year can be reconciled to the profit per the income statement as follows:

| | 2018 $000 | 2017 $000 |
|---|---|---|
| Profit on ordinary activities before tax | 95,439 | 88,899 |
| Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.00% (2017 – 19.25%) | 18,133 | 17,113 |
| *Effects of:* | | |
| Other permanent differences | (673) | (4,361) |
| Impact of lower rate on patent box | (6,102) | (4,756) |
| Difference in DT rate on opening balances | - | - |
| Difference in DT and CT rates | 161 | 147 |
| Adjustments to current tax in respect of previous years | 647 | 994 |
| Total tax for the year (note 8(a)) | 12,166 | 9,137 |

# Notes to the financial statements

**at 31 December 2018**

## 9. Tax (continued)

(c) Deferred tax

Movements in deferred tax asset in the period:

| | *$000* |
|---|---|
| At 1 January 2018 | (2,407) |
| Prior year adjustment | 1,451 |
| Charged in the year | (1,370) |
| At 31 December 2018 | (2,326) |

Deferred tax assets recognised at 31 December 2018 and 2017:

| | *2018* *$000* | *2017* *$000* |
|---|---|---|
| Excess of depreciation over tax allowances on tangible fixed assets | (1,639) | (1,316) |
| Timing differences on pensions | (32) | (42) |
| Other timing differences | (655) | (1,049) |
| | (2,326) | (2,407) |

## 10. Investments

| | *Subsidiary undertakings* *$000* |
|---|---|
| ***Cost and net book value:*** | |
| At 1 January 2018 and 31 December 2018 | 34 |

Details of the investments in which the company holds more than 20% of the nominal value of any class of share capital are as follows:

| *Name of company* | *Country of incorporation or registration* | *Registered address* | *Holding* | *Proportion of shares held* |
|---|---|---|---|---|
| Schrader International GMBH | Germany | Gewerbepark 15, 85250 Altomunster | Ordinary | 100% |

# Notes to the financial statements

**at 31 December 2018**

## 11. Intangible fixed assets

| | *Computer software* *$000* |
|---|---|
| Cost: | |
| At 1 January 2018 | 2,692 |
| Additions | 73 |
| At 31 December 2018 | 2,765 |
| Accumulated amortisation: | |
| At 1 January 2018 | 2,466 |
| Amortisation charge for the year | 163 |
| At 31 December 2018 | 2,629 |
| **Net book value:** | |
| At 31 December 2018 | 136 |
| At 1 January 2018 | 226 |

## 12. Tangible fixed assets

| | *Freehold Property* *$000* | *Assets under construction* *$000* | *Plant, equipment and machinery* *$000* | *Total* *$000* |
|---|---|---|---|---|
| Cost: | | | | |
| At 1 January 2018 | 5,458 | 5,909 | 68,348 | 79,715 |
| Additions | - | 5,644 | - | 5,644 |
| Disposals | - | (589) | (5,679) | (6,268) |
| Transfers between asset classes | 734 | (4,866) | 4,132 | - |
| At 31 December 2018 | 6,192 | 6,097 | 66,802 | 79,091 |
| Accumulated depreciation: | | | | |
| At 1 January 2018 | 1,745 | - | 28,242 | 29,987 |
| Depreciation charge for the year | 649 | - | 10,243 | 10,892 |
| Disposals | - | - | (1,674) | (1,674) |
| At 31 December 2018 | 2,394 | - | 36,811 | 39,205 |
| Net book value: | | | | |
| At 31 December 2018 | 3,798 | 6,097 | 29,991 | 39,886 |
| At 1 January 2018 | 3,713 | 5,909 | 40,106 | 49,728 |

# Notes to the financial statements

**at 31 December 2018**

## 13. Stocks

| | *2018* | *2017* |
|---|---|---|
| | *$000* | *$000* |
| Raw materials | 10,467 | 10,899 |
| Work in progress | 1,745 | 1,368 |
| Finished goods | 14,217 | 24,856 |
| | 26,429 | 37,123 |

## 14. Debtors

| | *2018* | *2017* |
|---|---|---|
| | *$000* | *$000* |
| ***Due within one year*** | | |
| Trade debtors | 45,738 | 48,064 |
| Amounts owed by group undertakings | 242,377 | 866,204 |
| Other taxes and social security costs | 4,284 | 3,472 |
| Prepayments | 2,755 | 1,857 |
| Other debtors | 2,119 | 1,756 |
| | 297,272 | 921,353 |
| Corporation tax debtor | - | 3,613 |

All amounts owed by group undertakings are repayable on demand

| | *2018* | *2017* |
|---|---|---|
| ***Due after more than one year*** | | |
| Deferred Tax Asset | 2,326 | 2,287 |
| Amounts owed by group undertakings | - | 125,000 |
| Other Debtors | 11,375 | 12,996 |
| | 13,701 | 140,283 |

## 15. Creditors: amounts falling due within one year

| | *2018* | *2017* |
|---|---|---|
| | *$000* | *$000* |
| Trade creditors | 21,941 | 24,093 |
| Amounts owed to group undertakings | 232,779 | 805,009 |
| Other taxes and social security costs | 2,634 | 2,928 |
| Accruals and deferred income | 5,967 | 8,242 |
| Provisions | 4,098 | 4,439 |
| Other creditors | 305 | 250 |
| | 267,724 | 844,961 |
| Corporation tax creditor | 2,330 | - |
| | 270,054 | 844,961 |

All amounts owed to group undertakings are repayable on demand

# Notes to the financial statements

**at 31 December 2018**

## 16. Provisions for liabilities

| | *Warranty provision* *$000* |
|---|---|
| At 1 January 2018 | 2,902 |
| Increase during the year | 330 |
| Reclassification of short term element | (1,798) |
| At 31 December 2018 | 1,434 |

The warranty provision is to cover the warranty that is provided to customers on products sold.

## 17. Issued share capital

| | | *2018* | | *2017* |
|---|---|---|---|---|
| *Allotted, called up and fully paid* | *No.* | *$000* | *No.* | *$000* |
| Ordinary shares of £1 each | - | - | 2,550,000 | 3,447 |
| Ordinary shares of £0.00000001 | 296,681,676 | - | - | - |

In December 2018, the company issued an additional 294,131,676 ordinary shares with a nominal value of £1.00 per share. A capital reduction was undertaken later in the month, cancelling the share premium in full and reducing the nominal value of the shares to £0.00000001 per share.

## 18. Shareholders' funds

Shareholders' funds is comprised of share capital, capital reduction reserve, share option reserve and retained earnings brought forward with profit earned for the year ended 31 December 2018. The share premium was cancelled in the year as part of the capital reduction.

## 19. Deferred income

| | *Government grants* *$000* |
|---|---|
| At 1 January 2018 | 3,448 |
| Disposals in year | (99) |
| Reclassification of short term element | (448) |
| Released to profit and loss account | (721) |
| At 31 December 2018 | 2,181 |

During the year, the deferred income provision was separated into short term and long term elements. The short term element was reclassified to current liabilities and does not form part of the above closing balance.

## 20. Capital commitments

As at 31 December 2018, additions to plant and machinery contracted for but not provided for in the financial statements amounted to $7.0m (2017 – $6.0m).

# Notes to the financial statements

**at 31 December 2018**

## 21. Other financial commitments

At 31 December 2018 the company had total commitments under non-cancellable operating leases as set out below:

| | *2018* | *2017* |
|---|---|---|
| | *$000* | *$000* |
| Operating leases which expire: | | |
| Within one year | 1,062 | 901 |
| In two to five years | 294 | - |
| Over five years | - | - |
| | 1,356 | 901 |

## 22. Contingent liabilities

In the normal course of business, claims, actions or lawsuits, alleging infringement of intellectual property rights in connection with goods produced by the company can arise. Current claims against the company in relation to these matters are, in the opinion of management, without merit but a loss is possible which cannot be reasonably estimated. The company's management does not anticipate that the outcome of these proceedings will have a material effect on the company's financial position.

## 23. Derivatives not included at fair value

The company does not use forward foreign currency derivatives to manage its exposure to exchange rate movements on actual and forecast transactions, instead relying on the parent company to manage any foreign exchange risk.

## 24. Guarantees

There are no bank guarantees in place.

## 25. Ultimate parent undertaking and controlling party

The company's immediate parent undertaking and controlling party is August UK Holdco Ltd, a company registered in the United Kingdom.

The company's ultimate parent undertaking and controlling party at 1st January 2018 was Sensata Technologies Holdings NV. Following a relocation to the UK in March 2018, the ultimate parent company at the time of this report is Sensata Technologies Holding plc.