Eaton Limited

Report and Financial Statements

31 December 2012





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COMPANIES HOUSE

Directors

D Byrka
K H P Dehnert
J Mannerkoski
T Moran

Auditors

Ernst & Young LLP
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5 George Square
Glasgow G2 1DY

Bankers

Barclays Bank PLC
54 Lombard Street
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Deutsche Bank AG
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Solicitors

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Directors' report

The directors present their report and financial statements for the year ended 31 December 2012

Results and dividends

The company made a profit after tax of £5,166,000 (2011 – profit of £1,333,000) No dividend was paid by the company during the year (2011 – £42,100,000) and the directors are not recommending the payment of a dividend

Principal activities and review of the business

The principal activities of the company cover a variety of manufacturing operations, including aerospace, vehicle component and hydraulic equipment components These operations are based at a number of locations across the UK with all of these operations selling into the Original Equipment Manufacturers in their specific sectors In addition there are a number of sales and administrative functions based in the UK which also operate as part of this entity across a number of UK locations

Turnover for the year ended 31 December 2012 continued the good recovery started in 2010 from the low point of 2009, with a further improvement of 3% on 2011 levels to £145,340,000 This improvement was broadly based across all elements of the company's operations in the year, with continued resilience in the gross profit margin in the year Administration & distribution expenses were broadly in line with expectations, being 15% down on last year due to increased costs charged to other Eaton companies during the year Other operating charges has returned to levels experienced in 2010 after the increase of £6,031,000 experienced in the prior year due to an increase in costs charged from Eaton companies Interest receivable decreased from £2,104,000 to £1,317,000 primarily as a result of lower interest rates on intercompany loans Please see note 13 for details of movements in investments during the year
The directors were thus satisfied with the performance during the year.

Key performance indicators

Measurement of the company's performance is consistently applied and control is exercised by local and divisional management The company has a budgeting system in place whereby actual performance is measured against budget on a monthly reporting timetable

Future developments

The Directors anticipate a continued difficult trading environment into 2013, and thus are expecting only a limited increase in sales in the year in relation to like for like sales However at the end of 2013 the Company purchased the trade and trade related assets and liabilities of other Eaton group companies These transactions occurred as part of a legal entity rationalisation process in the United Kingdom As this occurred at the end of 2013, profit is thus unlikely to be significantly changed on current levels in 2013 The full impact of this transaction will be realised in 2014

Principal risks and uncertainties

Pricing pressure

- The company continues to experience strong pricing pressure from its competitors in key segments of the business

Environmental

- The group pays particular attention to environmental matters and ensures corporate responsibility

Financial risk management objectives and policies

The company's policy does not permit trading in any financial instruments The company's principal financial instruments comprise of cash, intercompany deposits and or borrowings, the main purpose of which is to provide finance for its normal trading operations and to reduce the impact of currency exchange rate movements on trading results

The company has various other financial instruments such as trade debtors and creditors that arise directly from its trading operations

The main risks arising from the company's financial instruments are liquidity, foreign currency cash flow and credit risks The company has clear policies for managing each of these risks, as summarised below

Directors' report (continued)

Liquidity risk

Liquidity risk is the risk that an organisation may not have, or not be able to raise, cash funds when needed The company aims to mitigate liquidity risk by managing cash generation by its operations and applying cash collection targets Investment is carefully controlled, with authorisation limits operating at different levels up to group board level and with hurdle rates of return and cash payback periods applied as part of the investment appraisal process

The company participates in the overall world-wide group's funding strategy managed at corporate treasury level The company participates in a UK cash pool The objective is to maintain a balance between continuity of funding and flexibility

Foreign currency cash flow risk

The company buys and sells goods and services denominated in currencies other than sterling The company manages such receipts and payments through the operation of other denominated currency bank accounts As a result of the value of the company's non-sterling revenues, purchases, financial assets and liabilities, cash flows can be affected significantly by movements in exchange rates

The company seeks, where appropriate, to mitigate its exposure to currency movements by working with the world-wide group's treasury department to enter into forward currency contracts, denominated in the same currency as the operating funds flow (against sterling), to match transactional exposures on the balance sheet and future cash flow exposures anticipated in the business Such forward contracts are entered into on the basis of regularly updated forecast information on the level of trading in each denominated currency

Credit risk

The risk of financial loss due to a counterparty's failure to honour its obligations arises principally in relation to transactions where the company provides goods and services on deferred credit terms

Company policies are aimed at minimising such losses, and require that deferred terms are granted only to customers who demonstrate an appropriate payment history and satisfy creditworthiness procedures Individual exposures are monitored with customers subject to credit limits to ensure that the company's exposure to bad debts is not significant Goods may be sold on a cash-with-order basis to mitigate credit risk Some operating units purchase bad debt insurance where the cost is not excessive when compared to the risks covered

In agreeing annual budgets, operating units set limits for debtors' days and doubtful debts expense against which performance is monitored at both operating unit and company level A process for alerting management to operations failing to meet monthly cash collection targets serves to reduce the likelihood of an unmanaged concentration of credit risk

Going Concern

In line with the FRC guidance on Going Concern issued in November 2009, the directors have undertaken an exercise to review the appropriateness of the continued use of the Going Concern basis The company's business activities, a review of the business and a description of the principal risks and uncertainties, together with the company's financial risk management processes and narrative regarding its exposure to key financial risks are outlined above

The company participates in the group's centralised treasury arrangements, which operate across the group and so shares banking arrangements with its parent and fellow subsidiaries Under such an arrangement, short term cashflow (both deficits and excesses) are managed by the group treasury to optimise the group's overall cash position The directors have made enquiries with group treasury that there is no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of Eaton group to continue as a going concern or its ability to continue with the current banking arrangements

Directors' report (continued)

Going Concern (continued)

After making such enquiries, the directors have a reasonable expectation that the company has adequate resources to meet its liabilities as they fall due for the foreseeable future Accordingly, they continue to adopt the going concern basis in preparing the accounts

Research and development

The company has continued its programme of research and development to improve a number of its existing products and to develop new products for the future

Directors and secretary

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

D Byrka (appointed 10 October 2013)
K H P Dehnert (appointed 1 May 2013)
J Mannerkoski (appointed 10 October 2013)
T Moran (appointed 10 October 2013)
J M Ward (resigned 1 May 2013)
J McFarland (resigned 20 September 2013)
Y Tsavalas (resigned 10 October 2013)
F Ceccarelli (resigned 1 May 2013)
P Banning - secretary (resigned 10 October 2013)

In accordance with the provisions of the Companies Act 2006, no company secretary has been appointed following the resignation of P Banning

Directors' qualifying third party indemnity provisions

The company has arranged insurance cover to indemnify one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006 Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report

Political and charitable contributions

The company donated £30,000 for charitable purposes during the year (2011 – £30,000)

Employee involvement

The employee involvement programme has been maintained and communications between management and employees remain good Total quality management teams, briefing groups and joint consultative committees continue to operate in all the main plants

Disabled persons

It is the company's policy to give full consideration to suitable applications for employment from disabled persons

Opportunities also exist for employees of the company who become disabled to continue in their employment or to be trained for other positions within the company

Directors' report (continued)

Disclosure of information to the auditors

Each of the persons who is a director at the date of approval confirms that

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and

- the director has taken all the steps he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish the company's auditors are aware of that information

Re-appointment of auditors

In accordance with section 485 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

T Moran
Director

19 December 2013

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the 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 judgements and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

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

Independent auditors' report

to the members of Eaton Limited

We have audited the financial statements of Eaton Limited for the year ended 31 December 2012 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 27 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

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

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement 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 the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and,
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

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

Independent auditors' report (continued)

to the members of Eaton Limited

Matters on which we are required to report by exception

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

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

Ernst & Young LLP

James Bishop (Senior statutory auditor)

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

Glasgow

20 December 2013

Profit and loss account

for the year ended 31 December 2012

	Notes	*2012 £000*	*2011 £000*
Turnover	2	145,340	141,677
Cost of sales		(122,145)	(117,073)
Gross Profit		23,195	24,604
Distribution costs		(280)	(1,994)
Administrative expenses		(15,504)	(16,336)
Other operating income		1,439	3,587
Other operating charges		(4,453)	(10,292)
Operating Profit/(Loss)	3	4,397	(431)
Interest receivable	7	1,317	2,104
Interest payable and similar charges	8	(81)	(43)
Other finance expense	9	(272)	(329)
Profit on ordinary activities before taxation		5,361	1,301
Tax	10	(195)	32
Profit for the financial year	21	5,166	1,333

All items in the profit and loss account relate to continuing operations

Statement of total recognised gains and losses

for the year ended 31 December 2012

	2012 £000	*2011 £000*
Profit for the financial year	5,166	1,333
Actuarial gain relating to post retirement medical benefits (Note 24)	636	722
Deferred tax charge on actuarial gain (Note 10)	(258)	(305)
Total recognised gains and losses relating to the year	5,544	1,750

Balance Sheet

at 31 December 2012

	Notes	2012 £000	2011 £000
Fixed assets			
Intangible assets	11	19,660	19,063
Tangible assets	12	16,462	16,804
Investments	13	75,024	74,858
		111,146	110,725
Current assets			
Stocks	14	17,958	16,093
Debtors – due after more than one year	15	127,452	120,079
Debtors – due within one year	15	33,293	28,789
Investment	16	221	230
Cash at bank and in hand		838	-
		179,762	165,191
Creditors amounts falling due within one year	17	(96,586)	(88,895)
Net current assets		83,176	76,296
Total assets less current liabilities		194,322	187,021
Provisions for liabilities	19	(2,716)	(2,307)
Net assets excluding retirement benefits liabilities		191,606	184,714
Retirement benefits liabilities	24	(3,880)	(4,157)
Net assets including retirement benefits liabilities		187,726	180,557
Capital and reserves			
Issued share capital	20	2,100	2,100
Share premium account	21	111,276	111,276
Capital redemption reserve	21	200	200
Capital contribution reserve	21	22,312	20,597
Share based payment contribution	21	1,134	1,195
Other reserves	21	387	387
Profit and loss account	21	50,317	44,802
Shareholders' funds	22	187,726	180,557

The financial statements were approved by the Board of Directors on 19 December 2013

Director
T Moran

Company registration number 155621

Notes to the financial statements

at 31 December 2012

1. Accounting policies

Basis of preparation

The financial statements are prepared under the historical cost convention and in accordance with applicable UK accounting standards The true and fair override provisions of the Companies Act 2006 have been invoked, see note 11

Group financial statements

The company is exempt from preparing group financial statements, and has not done so, as it has utilised the exemption available to intermediate holding companies under Section 401 of the Companies Act 2006

Statement of cash flows

No statement of cash flows has been prepared as the company is entitled to an exemption under FRS 1 'Cash Flow Statements'

Goodwill

Goodwill is capitalised and classified as an asset in the balance sheet Amortisation is calculated to write off the capitalised goodwill in equal instalments over its estimated useful life up to a maximum of 20 years Goodwill is reviewed for impairment following the first full year following acquisition and in other periods if events or changes in circumstances indicate that the carrying values may not be recoverable

Intangible assets

Intangible assets are amortised on a straight line basis over their estimated useful lives up to a maximum of 20 years The carrying value of intangible assets is reviewed for impairment if events or changes in circumstances indicate that the carrying values may not be recoverable

Tangible fixed assets

Property, plant and machinery is stated at cost less accumulated depreciation and accumulated impairment losses Such cost includes costs directly attributable to making the asset capable of operating as intended Borrowing costs attributable to assets under construction are recognised as an expense when incurred

Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost, less estimated residual value based on prices prevailing at the date of acquisition, of each asset evenly over its expected useful life as follows:

Freehold buildings	–	over 40 years
Leasehold improvements	–	over the lease term
Plant and machinery	–	over 10 years
Fixtures, fittings, tools and equipment	–	over 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

Stocks

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

Raw materials	–	purchase cost on a first-in, first-out basis
Work in progress and finished goods	–	cost of direct materials and labour plus attributable overheads based on a first-in, first-out basis

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

Notes to the financial statements

at 31 December 2012

1. Accounting policies (continued)

Deferred taxation

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

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

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

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date, except those relating to forward foreign exchange contracts which are translated at the contract rate

The resulting exchange gains and losses are included, net, in the profit and loss account

Leasing commitments

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

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

Rentals paid under operating leases are charged to income on a straight line basis over the lease term

Pensions and other post-retirement health care benefits

The company is a member of the Eaton UK Retirement Benefits Plan and the Eaton Pension Plan, which are multi employer defined benefit schemes where the assets cannot be apportioned to individual companies Accordingly, these financial statements account for the pension costs of the schemes as defined contribution schemes and charges are made as incurred

The service cost of post retirement medical benefits is accrued in the financial statements over the expected service lives of the relevant employees and is charged to operating profit The post-retirement benefit liabilities are calculated by the actuarial projection of estimated future benefit payments, discounted at the current rate of return on a high quality corporate bond of equivalent terms and currency to the liability

The interest on liabilities is included in other finance expense Actuarial gains/losses are recognised in the statement of total recognised gains and losses

Notes to the financial statements

at 31 December 2012

1. Accounting policies (continued)

Revenue recognition

Revenue is recognised to the extent that the company obtains the right to consideration in exchange for its performance Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duty The following criteria must also be met before revenue is recognised

Sale of goods

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

Dividends

Revenue is recognised when the company's right to receive payment is established

Interest income

Revenue is recognised as interest accrues

Research expenditure

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

Provision for liabilities

A provision is recognised when the group has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation

Provisions for the expected costs of maintenance under guarantees are charged against profits when products have been invoiced The effect of the time value of money is not material and therefore the provisions are not discounted

Stock options

In accordance with UITF 25 National Insurance on Share Option Grants, the anticipated National Insurance charge on gains made by employees over the period from the date of grant to the end of the performance period has been provided for

Share based payments

Incentives in the form of shares are provided to certain employees under share option and share award schemes that are established by the ultimate parent company, Eaton Corporation PLC The fair value of these options and awards at the date of their grant is determined by a valuation as described in note 6 and is charged to the profit and loss account over the relevant vesting periods An amount equivalent to that charged to profit in any period is credited to shareholders funds as a reserve movement reflecting the fact that there is no cash cost to the company of these share based payments

Where a charge is made by Eaton Corporation PLC on the company in respect of share based payments, it is offset against the corresponding amount credited in the period within shareholders funds Any charge in excess of this amount is treated as a distribution to Eaton Corporation PLC

2. Turnover

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties and to fellow subsidiary undertakings

Turnover is attributable to continuing activities in the UK

The directors consider that the disclosure of turnover, net assets and profits by classes of business and by geographical market would be seriously prejudicial to the interests of the company

Notes to the financial statements

at 31 December 2012

3. Operating profit / (loss)

This is stated after charging

		2012 £000	*2011 £000*
Auditors' remuneration	– audit of the financial statements	176	176
	– taxation services	199	199
Depreciation	– owned fixed assets	2,516	2,444
Research and development		1,822	3,058
Operating lease rentals	– plant and machinery	376	692
	– land and buildings	798	321
Amortisation of goodwill		1,328	1,328
Loss on sale of fixed asset		21	99
Provision for warranty claims		1,287	1,666

4. Directors' emoluments

No director received, or was due to receive, any emoluments in connection with their services as a director of the company during the year The fair value of the services received has been assessed at £5,000 per director, therefore Eaton Limited recognises a notional charge of £25,000 (2011 £12,313) for Director's services during the year

5. Staff costs

	2012 £000	*2011 £000*
Wages and salaries	26,924	23,673
Social security costs	1,740	1,961
Other pension costs	14,446	15,382
	43,110	41,016

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

	2012 No	*2011 No*
Manufacturing	541	536
Distribution	78	64
Administration	185	180
	804	780

Included in wages and salaries is a total expense of share-based payments of £251,360 (2011 – £215,863) arising from transactions accounted for as equity-settled share-based payments transactions

Notes to the financial statements

at 31 December 2012

6. Share based payments

The ultimate parent company, Eaton Corporation PLC, administers various compensation plans for certain employees Under the plans, which have no fixed expiry dates, the ultimate parent company has issued stock options to certain employees of the company's subsidiaries

Full details of the Eaton Corporation PLC Equity Compensation Plan are available in the published accounts of the ultimate parent company A summary of the transactions relevant to Eaton Limited follows

The company has continued to apply the requirements of FRS 20 – Share Based Payments in accordance with UITF44 Group and Treasury Share Transactions

Stock options

Options vest and are exercisable at the following rates if the employee remains in service for one, two and three years, respectively, following the date of grant

- 33 1/3% one year after grant date
- 66 2/3% two years after grant date
- 100% three years after grant date

The term of each stock option cannot exceed 10 years from the date of grant All options granted under the Plan have an exercise price that is the market value of the stock on the date of grant, as determined pursuant to the plan Dividends are not paid or earned on stock options There are no cash settlement alternatives

The fair value of stock options granted is estimated as at the date of grant using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted The following table lists the inputs to the formula used for the years ended 31 December 2012 and 31 December 2011

	2012	2011
Expected dividend yield (%)	2	2
Historical volatility factor (%)	30%	30%
Expected share price volatility factor (%)	35%	33%
Risk free interest rate (%)	0 9% to 1 0%	1 4% to 2 2%
Weighted average expected life of options (years)	5 5	5 5
Weighted average fair value of stock options granted ($)	$14 08	$14 56

Application of the Black-Scholes option pricing model involves assumptions that are judgmental and affect compensation expense Historical information was the primary basis for the selection of expected volatility, expected option life and expected dividend yield Expected volatility was based on the most recent historical period equal to the expected life of the option The risk free interest rate was based on yields of US Treasury zero coupon issues with a term equal to the expected life of the option, on the date the stock options were granted

The expense recognised for share-based payments in respect of employees' services received during the year to 31 December 2012 is £nil (2011 – £3,399) arising from stock options The committed future charge to profit in respect of existing stock options will be £nil

The company has made payments of £29,381 (2011 £428,750) to its ultimate parent company in respect of the cost of the awards made under the scheme

Notes to the financial statements

at 31 December 2012

6. Share based payments (continued)

Restricted Stock Units

Restricted stock units represent a right to receive shares of Eaton Corporation PLC common stock at a future date determined in accordance with the participants' award agreement There is no exercise price and no monetary payment is required for receipt of restricted stock units or the shares issued in settlement of the award Instead, consideration is provided in the form of the participants' service to the company Restricted stock units vest over three years

The fair value of the restricted stock units is estimated as at the date of grant using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the units were granted The following table lists the inputs to the formula used for the years ended 31 December 2012 and 31 December 2011

	2012	2011
Expected dividend yield (%)	2	2
Historical volatility factor (%)	33%	30%
Expected share price volatility factor (%)	35%	33%
Risk free interest rate (%)	0 9% to 1 0%	1 4% to 2 2%
Weighted average expected life of options (years)	5 5	5 5
Weighted average fair value of stock options granted ($)	$14 08	$14 56

Application of the Black-Scholes unit pricing model involves assumptions that are judgmental and affect compensation expense Historical information was the primary basis for the selection of expected volatility, expected option life and expected dividend yield Expected volatility was based on the most recent historical period equal to the expected life of the option The risk free interest rate was based on yields of US Treasury zero coupon issues with a term equal to the expected life of the restricted stock unit, on the date the restricted stock units were granted

The expense recognised for share based payments in respect of employees services during the year to 31 December 2012 is £251,360 (2011 – £212,464) arising from restricted stock units The committed future charge to profit in respect of existing stock units will be £205,494

The company has made a payment of £312,769 (2011 £150,971) to its ultimate parent company in respect of the cost of the awards made under the scheme This has been charged directly to equity

7. Interest receivable

	2012 *£000*	*2011* *£000*
On loans and balances due from fellow group undertakings	1,317	2,088
On bank deposits	-	16
	1,317	2,104

Notes to the financial statements

at 31 December 2012

8. Interest payable and similar charges

	2012 £000	2011 £000
On balances due to fellow group undertakings	81	43

9. Other finance expense

	2012 £000	2011 £000
Interest on post retirement medical benefits liability	272	329

10. Tax

(a) Tax on profit on ordinary activities

The tax charge is made up as follows

	2012 £000	2011 £000
Current tax		
Adjustment in respect of previous years	-	-
Total current tax (note 10(b))	-	-
Deferred tax		
Origination and reversal of timing differences	(195)	32
Total deferred tax (note 10(c))	(195)	32
Tax on profit on ordinary activities	(195)	32

(b) Factors affecting current tax charge

The tax assessed for the year is lower than the standard rate of corporation tax in the UK of 24 5% (2011 – 26 5%) The differences are explained below

	2012 £000	2011 £000
Profit on ordinary activities before tax	5,361	1,301

Notes to the financial statements

at 31 December 2012

10. Tax (continued)

	2012	*2011*
	£000	*£000*
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 24 5% (2011 – 26 5%)	1,313	345
Effects of		
Disallowed expenses and non-taxable income	497	993
Depreciation in excess of capital allowances	449	480
Other timing differences	195	109
Group relief	(2,486)	(1,972)
Pension provision	32	45
Current tax for the year (note 10(a))	-	-

(c) Deferred tax

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

	2012	*2011*
	£000	*£000*
Decelerated capital allowances	6,491	6,619
Other timing differences	882	980
Retirement benefits	1,158	1,386
Net deferred tax asset	8,531	8,985

	£000
At 1 January 2012	8,985
Provided during the year	49
Statement of total recognised gains and losses	(258)
Adjustment in respect of prior year	(245)
At 31 December 2012	8,531
Presented as follows	
Included in debtors (note 15)	7,373
Offset against retirement benefits liability (note 24)	1,158
Net deferred tax asset	8,531

Deferred tax assets and liabilities are measured at rates that are expected to apply in the period when the asset is realised or the liability settled based on the tax rates that have been substantively enacted at the balance sheet date

Notes to the financial statements

at 31 December 2012

10. Tax (continued)

The corporation tax rate was reduced to 24% with effect from 1 April 2012 However, in his Budget of 20 March 2013, the Chancellor of the Exchequer announced a number of further changes to the UK Corporation Tax rate These included a reduction in the UK corporation tax rate from 23% to 21% effective from 1 April 2014 and to further reduce the UK corporate income tax rate to 20%, effective from 1 April 2015, which will be enacted in successive Finance Bills Consequently, the company will only recognise the impact of the rate change which is substantively enacted at that time in its financial statements A further 1% rate reduction to 23% was also announced and it was intended that this would be effective from 1 April 2013

11. Intangible fixed assets

	Deferred development expenditure £000	*Goodwill £000*	*Total £000*
Cost			
At 1 January 2012	5,830	26,568	32,398
Additions	1,925	-	1,925
At 31 December 2012	7,755	26,568	34,323
Amortisation			
At 1 January 2012	-	13,335	13,335
Provided during the year	-	1,328	1,328
At 31 December 2012	-	14,663	14,663
Net book value			
At 31 December 2012	7,755	11,905	19,660
At 1 January 2012	5,830	13,233	19,063

Notes to the financial statements

at 31 December 2012

11. Intangible fixed assets (continued)

True and fair override on divisionalisation of subsidiary undertakings

As part of a rationalisation of the group in 2001, the trade and net assets of a subsidiary undertaking were transferred to the company at their book value The cost of the company's investment in that subsidiary undertaking reflected the underlying fair value of its net assets and goodwill at the time of its acquisition As a result of this transfer, the value of the company's investment in that subsidiary undertaking fell below the amount at which it was stated in the company's accounting records At the time of the transaction, Schedule 4 to the Companies Act 1985 requires that the investment be written down accordingly and that the amount be charged as a loss in the company's profit and loss account However, the directors consider that, as there had been no overall loss to the company, it would fail to give a true and fair view to charge the diminution to the company's profit and loss account and it should instead be re-allocated to goodwill and the identifiable net assets transferred, so as to recognise in the company's individual balance sheet the effective cost to the company of those net assets and goodwill

Goodwill is being amortised evenly over the directors' estimate of its useful economic life of 20 years

Development expenditure

In 2008, the Lakeside facility entered into a development contract with one of its customer relating to future advances on a wide body jet platform An upfront development payment of $2 million was made to this customer during 2008, another $1million paid in 2009, and a further $3 million paid in each of 2010, 2011 and 2012 This initial investment will be repaid at a predetermined rate once the platform is in use based on the number of hours aircraft are in flight

12. Tangible fixed assets

	Land and buildings £000	*Plant and machinery £000*	*Fixtures and fittings £000*	*Total £000*
Cost				
At 1 January 2012	16,541	65,489	1,621	83,651
Additions	512	1,121	536	2,169
Reclassified during year	-	202	(202)	-
Transfers	-	26	-	26
Disposals	(55)	(357)	(234)	(646)
At 31 December 2012	16,998	66,481	1,721	85,200
Depreciation				
At 1 January 2012	9,683	56,167	997	66,847
Provided during the year	517	1,777	222	2,516
Reclassified during year	-	(1)	1	-
Disposals	(35)	(356)	(234)	(625)
At 31 December 2012	10,165	57,587	986	68,738
Net book value				
At 31 December 2012	6,833	8,894	735	16,462
At 1 January 2012	6,858	9,322	624	16,804

Notes to the financial statements

at 31 December 2012

12. Tangible fixed assets (continued)

The net book value of land and buildings comprises

	2012	2011
	£000	*£000*
Freehold	6,607	6,811
Short leasehold	226	14
	6,833	6,825

The value of freehold land included in land and buildings amounted to £2,488,000 (2011 – £2,488,000)

13. Investments

	Subsidiary undertakings
	£000
At 1 January 2012	74,858
Acquired during the year	
Eaton Filtration Limited	1559
Eaton Industries (UK) Limited	156
Write down of investment in Eaton Filtration Limited	(1,549)
At 31 December 2012	75,024

During the year the company acquired investments in Eaton Filtration Limited and Eaton Industries (UK) Limited through a capital contribution from its immediate parent company Following the receipt of a dividend from Eaton Filtration Limited this investment was written down to the remaining net asset value of Eaton Filtration Limited

The company holds 100% of the ordinary share capital of Eaton Truck Components (Pty) Limited, a company incorporated in South Africa, which distributes truck components, Eaton Power Solutions Limited and Eaton Power Quality Limited, companies incorporated in England

Notes to the financial statements

at 31 December 2012

The capital and reserves at 31 December 2012 and the profit for the year then ended were as follows

Name of undertaking	*Capital and reserves as at 31 December 2012* £000	*Profit / (loss) for the year ended 31 December 2012* £000
Eaton Truck Components (Pty) Limited	*7,621*	*746*
Eaton Power Solutions Limited	*16,348*	*(635)*
Eaton Power Quality Limited	*24,758*	*2,375*
Eaton Filtration Limited	*10*	*(187)*
Eaton Industries (UK) Limited	*7,602*	*(398)*

14. Stocks

	2012 £000	*2011* £000
Raw materials and consumables	13,961	13,705
Work in progress	3,997	1,716
Finished goods	-	672
	17,958	16,093

15. Debtors

	2012 £000	*2011* £000
Amounts falling due after more than one year		
Amounts owed by group undertakings	120,079	112,480
Deferred tax	7,373	7,599
	127,452	120,079
Amounts falling due within one year		
Trade debtors	23,303	19,738
Other debtors	2,712	2,426
Prepayments and accrued income	7,278	6,625
	33,293	28,789

Notes to the financial statements

at 31 December 2012

16. Current asset investment

	2012	*2011*
	£000	*£000*
Listed	221	230

This investment has a New York Stock Exchange valuation of £289,000 at 31 December 2012 (2011 – £283,000)

17. Creditors: amounts falling due within one year

	2012	*2011*
	£000	*£000*
Trade creditors	12,923	16,109
Amounts owed to group undertakings	67,761	58,543
Other taxes and social security costs	905	615
Other creditors	14,997	13,311
Bank overdraft	-	317
	96,586	88,895

18. Obligations under leases

Annual commitments under non-cancellable operating leases are as follows

	Land and buildings		*Other*	
	2012	*2011*	*2012*	*2011*
	£000	*£000*	*£000*	*£000*
Operating leases which expire				
Within one year	798	-	376	558
In two to five years	2,247	314	642	106
	3,045	314	1,018	664

Notes to the financial statements

at 31 December 2012

19. Provisions for liabilities

	Warranties £000
At 1 January 2012	2,307
Provided during the year	1,287
Utilised	(698)
Released during the year	(180)
At 31 December 2012	2,716

Provision is made for expected warranty claims on products sold and services provided It is expected that all costs related to such claims will be incurred within the next five years

20. Issued share capital

		2012		*2011*
Allotted, called up and fully paid	*No*	*£000*	*No*	*£000*
Ordinary shares of 25p each	8,400,004	2,100	8,400,004	2,100

Notes to the financial statements

at 31 December 2012

21. Reserves

	Share premium account £000	*Capital redemption reserve £000*	*Capital contribution reserve £000*	*Other reserves £000*	*Share based payment contribution £000*	*Profit and loss account £000*
At 1 January 2012	111,276	200	20,597	387	1,195	44,802
Profit for the year	-	-	-	-	-	5,166
Restricted Stock Unit Compensation	-	-	-	-	251	-
Restricted Stock Unit intergroup recharge	-	-	-	-	(312)	-
Stock Options intergroup recharge						(29)
Actuarial gain on post retirement medical benefits net of tax	-	-	-	-	-	378
Capital contribution	-	-	1,715	-	-	
At 31 December 2012	111,276	200	22,312	387	1,134	50,317

22. Reconciliation of shareholders' funds

	2012 £000	*2011 £000*
Shareholders' funds at 1 January	180,557	221,271
Profit for the year	5,166	1,333
Stock option payment compensation	-	3
Restricted Stock unit compensation	251	212
Stock option payment intergroup recharge	(29)	(428)
Restricted stock unit intergroup recharge	(312)	(151)
Capital contribution	1,715	-
Actuarial gain net of taxation	378	417
Dividend paid	-	(42,100)
Shareholders' funds at 31 December	187,726	180,557

Notes to the financial statements

at 31 December 2012

23. Capital commitments

	2012	*2011*
	£000	*£000*
Authorised and contracted but not provided for	925	398

24. Pensions and other post retirement health care benefits

Eaton Limited operates two defined benefit pension schemes, the Eaton UK Retirement Benefits Plan (Eaton UK Plan) and the Eaton Pension Plan In addition, there is a closed section of the Eaton Pension Plan which operates on a defined contribution basis The assets of each scheme are held separately from those of the company and are administered independently

The Eaton UK Plan and the Eaton Pension Plan are multi-employer Plans and it is the opinion of the directors that it is not possible to separate out, in a reasonable and consistent basis, the assets and liabilities of the Plan between the group companies which contribute to them The Plans are accounted for on a defined contribution basis within Eaton Limited under FRS 17

The valuation used for FRS 17 disclosures has been based on the most recent actuarial valuation of the Eaton UK Plan and the Eaton Pension Plan at 31 December 2008, which was updated by an independent actuary to take account of the requirements of FRS 17 in order to assess the liabilities of the schemes at 31 December 2012 Scheme assets are stated at their market value at the same date

The following disclosures do not impact the primary statements in accordance with FRS 17

The overall expected rate of return is determined by the Company after taking account of the results of stochastic modelling of the return available from the portfolio as a whole

	2012	*2011*
	% per annum	*% per annum*
Main assumptions		
Rate of salary increases	4 0%	4 0%
Rate of increase in pensions in payment		
– Post April 2005 service	1 75%	1 75%
– April 1997 to April 2005 service	2 0%	2 0%
– Pre April 1997 service	1 85%	1 85%
Rate of increase in pension in deferment		
– Linked to RPI	3 0%	3 0%
– Linked to CPI	2 0%	2 0%
Discount rate	5 0%	5 0%
Inflation assumption	2 0%	3 0%

Notes to the financial statements

at 31 December 2012

24. Pensions and other post retirement health care benefits *(continued)*

Plan asset information

	Allocation percentage 2012 %	*Allocation percentage 2011 %*
Equities	57 4	63 7
Bonds	35 9	33 5
Other	6 8	2 9

Changes in the present value of the defined benefit obligation are as follows

	2012 £000	*2011 £000*
Plan liabilities at 1 January	437,007	411,029
Employer service cost	13,810	12,337
Interest cost	21,432	22,231
Plan participants' contributions	146	166
Actuarial loss	9,161	5,606
Benefits paid from plan assets	(19,202)	(16,402)
Plan change/past service cost	1,000	2,040
Plan liabilities at 31 December	463,354	437,007

Changes in the fair value of plan assets are as follows

	2012 £000	*2011 £000*
Fair value of plan assets at 1 January	388,285	377,750
Actual return on assets	39,876	1,868
Employer contributions	24,003	24,903
Plan participants' contributions	146	166
Benefits paid from plan assets	(19,202)	(16,402)
Fair value of plan assets at 31 December	433,108	388,285

The group expects to contribute £31,080,000 to its defined benefit plans in the year ending 31 December 2012

Notes to the financial statements

at 31 December 2012

24. Pensions and other post retirement health care benefits *(continued)*

Five year history of assets, liabilities and experience gains and losses are as follows

	2012	*2011*	*2010*	*2009*	*2008*
	£000	*£000*	*£000*	*£000*	*£000*
Asset experience:					
Asset (gain)/loss during the year	(9,343)	26,788	(20,023)	(21,578)	68,813
Liability experience:					
Liability loss/(gain) during the year	(19,192)	-	13,832	(6,247)	1,562
(Deficit)/Surplus:					
Actuarial value of plan liabilities	(463,354)	(437,007)	(411,029)	(358,583)	(305,900)
Fair value of assets	433,108	388,285	377,750	329,245	284,355
(Deficit)/surplus in the plan	(30,246)	(48,722)	(33,279)	(29,338)	(21,545)

Post-retirement medical benefits

Post-retirement medical benefits are available to eligible employees who joined Eaton Limited prior to 1 January 1991 The number of current employees eligible to receive healthcare benefits on retirement is 7, (2011 – 7) with an average age of 57 years (2011 – 56) together with 84 (2011 – 86) retired employees or their surviving spouses receiving these benefits

The ongoing yearly accrual for these benefits is assessed by spreading the future service liability over the remaining expected working life of employees to arrive at a level annual service cost There are no assets held to back these benefits The cost of the arrangement is paid on a year-by-year basis from cash flow

	2012	*2011*	*2010*
	% per annum	*% per annum*	*% per annum*
Main assumptions			
Discount rate	5 0	5 0	5 5
Medical expenses inflation rate	7 5	7 0	7 5
Inflation rate	3 0	3 0	3 5

The liabilities of the post-retirement medical benefits plan are

	2012	*2011*	*2010*
	£000	*£000*	*£000*
Present value of plan liabilities	(5,038)	(5,543)	(6,096)

Notes to the financial statements

at 31 December 2012

24. Pensions and other post retirement health care benefits (continued)

Analysis of retirement benefits liabilities shown on balance sheet

	2012 *£000*	*2011* *£000*
Present value of plan liabilities	(5,038)	(5,543)
Deferred tax thereon (2012 – 23%, 2011 – 25%)	1,158	1,386
Retirement benefits liabilities	(3,880)	(4,157)

Analysis of the movement in deficit during the year

	2012 *£000*	*2011* *£000*
Deficit at beginning of year	(5,543)	(6,096)
Movement in year		
Current service costs	(23)	(26)
Other finance expense (note 9)	(272)	(329)
Contributions	164	186
Actuarial gain	636	722
Deficit at end of year	(5,038)	(5,543)

Analysis of amount recognised in the statement of total recognised gains and losses (STRGL)

	2012 *£000*	*2011* *£000*
Experience gains on plan liabilities	654	742
Changes in assumptions underlying the present value of the scheme liabilities	(18)	(20)
Net gain recognised in the STRGL	636	722

History of experience gains and losses

	2012	*2011*	*2010*	*2009*
Experience gain/(loss) arising on scheme liabilities				
– amount (£000)	654	742	261	192
– % of the present value of scheme liabilities	13 0	13 4	4 3	3 0
Total actuarial gain/(loss) recognised in the statement of total recognised gains and losses				
– amount (£000)	636	722	392	(824)
– % of the present value of the scheme liabilities	12 6	13 0	6 4	13 1

Notes to the financial statements

at 31 December 2012

25. Related party transactions

The company has taken advantage of the exemption in FRS 8, paragraph C not to disclose transactions with other group companies which meet the criteria that all subsidiary undertakings which are party to the transactions are wholly owned by the ultimate parent undertaking The company has not transacted with any other related parties in the year

26. Events after the balance sheet date

On 1 December 2013, as part of the legal entity rationalisation of the Eaton group in the United Kingdom, the company purchased the trade and related assets and liabilities of other Eaton group companies in the aerospace and hydraulics sectors

27. Immediate and ultimate parent undertaking and controlling party

The company's immediate parent undertaking is Eaton Holding Limited, a company registered in England and Wales

The company's ultimate parent undertaking and controlling party is Eaton Corporation PLC which is incorporated in Ireland The only group of which the company is a member and for which group financial statements are prepared is that headed by Eaton Corporation PLC Copies of the 2012 Annual Report of Eaton Corporation PLC can be obtained from the following address

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