

ThyssenKrupp System Engineering Limited

Annual report and financial statements

Registered number: 01294792

Year ended 30 September 2017

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Strategic report

The directors present their annual report and the audited financial statements of the company for the year ended 30 September 2017.

Principal activities

The principal activities of the Company during the year ended 30 September 2017 were:

- Servicing and modification to automotive engine assembly lines;
- Design, manufacture and installation of engine assembly 'In Line' equipment;
- New CBT Installations, Servicing and modifications to automotive car body assembly lines; and
- Preventative Die Maintenance of automotive body panel dies.

Financial Summary

The results of the company for the year to 30 September 2017 and the state of affairs at that date are shown in the financial statements on pages 9 to 29.

The financial results remain robust though EBIT return on sales fell to 7.1% (2016 10.9%) due largely to specific Engine Assembly projects. There was a fall in order book driven by relatively high levels of Ford Dagenham Assembly projects being delivered.

Profits on ordinary activities before interest and taxation fell by 40% to £1,800,302 (2016: £3,012,393) due in the main to the challenging In Line equipment projects within the Engine Assembly division (ASY).

Key Performance Indicators

	2017	2016
Order Intake	£21,268,524	£27,924,500
Revenue	£25,458,526	£27,657,924
EBIT	1,800,302	£3,012,393
% EBIT Return on Sales	7.1%	10.9%
Net Cash Pool Credit	£2,276,237	£279,653

KPI's Explained:-

- Orders - Represents orders received from customers during the financial year.
- Sales - Represents the revenue reported through the income statement.
- EBIT - Represents profits before interest paid/received and before corporation tax payments.
- % EBIT Return on Sales - Represents the proportion of earnings before interest and corporation tax payments generated from sales in the financial year.
- Net Cash Pool Credit - Represents the ThyssenKrupp Systems Engineering Limited funds held in ThyssenKrupp AG bank accounts at the end of the financial year. This is held under a group wide cash pooling arrangement.

Strategic report (continued)

Segmental Analysis

Engine Assembly

2017 has seen the continued delivery of Dagenham modifications to the Ford Neo and Lion F150 programmes as well as supporting the TK group on the Panther line modifications. In addition, the company built and delivered to site two complex robotic engine line machines for the i6 engine programme at JLR's Wolverhampton plant. This has provided a significant challenge to the Engine Assembly business.

Car Body Assembly

The division has concentrated on the completion of JLR's X761 and L560 Cladding and Controls programmes in Solihull and the X260/760#2 programmes in Castle Bromwich. In addition, the company has won orders on the new L551 programme at Halewood which falls outside the single sourced five model framework agreement the company has with JLR. This will provide a major execution focus for the coming year.

Die Maintenance

The company has been continuing to support JLR's Body Panel Die Press maintenance contract as part of a three year contract which will complete March 2018. Performance remained stable throughout 2017.

Aerospace

The business continues to successfully deliver maintenance contracts for aerospace customers in the UK and remains an important part of the business portfolio.

Summary of principal risks and uncertainties

The customer base is largely within the UK OEM automotive industry and as such is impacted by changes in industry and economic market conditions. Levels of investment within the UK are mixed and predicting market strength in the mid-term is extremely difficult. The emergence of electric cars, the change in perception of diesel fuel and the unknown impact of Brexit provides high levels of uncertainty.

The risk that key customers could change suppliers is constant. However the System Engineering (SY) business has been built on long standing successful business relationships and will strive to maintain these by providing a value added service to our customers. The emergence of the independent Aerospace contracts also helps mitigate such risk.

On behalf of the board



G Harper
Managing Director
ThyssenKrupp System Engineering Limited
Registered number: 01294792
28 June 2018

Directors' report

The directors present their report and the audited financial statements of the company for the year ended 30 September 2017.

Future Prospects

The order book supports a stable business in the short term. Expectations are that customers will continue to maintain engine assembly lines into the medium term and the business is well placed to support this. In addition, development and demand for electric vehicles is rising and UK customer's are investing for this future. The System Engineering group is also investing for this future and the UK business will support the UK development and longer term maintenance of such business. The CBT division is less impacted by the engine revolution and investment remains strong. The economic impact of Brexit could affect all divisions but the scale of impact, positive or negative, is hard to predict.

Directors

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

I Steinkruger
G Harper
U Anders
J-L Guyon (Resigned – 28 June 2017)

Financial risk management

The company's operations expose it to a variety of financial risks that include foreign exchange risk, credit risk and liquidity risk. The company has in place a risk management programme that seeks to limit the adverse effects of its financial performance. The policies set by the directors are implemented by the company's management team.

Foreign exchange risk

The company is exposed to currency risk when it has binding commercial or financial obligations in a currency other than its functional currency and the related cash inflows and outflows are not equal in amounts and timing. Foreign exchange exposures/risks are classified into three categories:

- transaction exposure/risks
- translation exposure/risks (accounting, balance sheet)
- economic exposure risks

Activities are focused on transactional cash flows which arise from receivables, payables, loans, cash balances, orders received, purchase orders etc. The primary responsibility to identify and hedge exposures lies with the company.

Directors' report (continued)

Credit risk

The company has implemented policies that require appropriate credit checks on potential customers before sales are made. The amount of exposure to any individual counterparty is subject to a limit, which is reassessed annually by the management of the company.

Liquidity risk

The company regularly reviews its debt finance requirements which are designed to ensure the company has sufficient available funds for its operations and planned expansions.

Dividends

The company paid dividends of £2,870,000 (2016: £4,830,000) during the financial year ended 30 September 2017.

Donations

During the year the company made no political donations (2016: £nil). Donations to UK charities amounted to £nil (2016: £nil).

Disclosure of information to auditors

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

- (1) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- (2) he/she has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the Annual General Meeting.

Directors' report (continued)

Statement of directors' responsibilities in respect of the financial statements

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

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

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

On behalf of the board



G Harper
Managing Director
ThyssenKrupp System Engineering Limited
Registered number: 01294792
28 June 2018

Independent auditors' report to the members of ThyssenKrupp System Engineering Limited

Report on the audit of the financial statements

Opinion

In our opinion, ThyssenKrupp System Engineering Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 30 September 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and financial statements (the "Annual Report"), which comprise: the statement of financial position as at 30 September 2017; the income statement and the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

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

Reporting on other information

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

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

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

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

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 30 September 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.



Sarah O'Donnell (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham

28 June 2018

Income Statement
for the year ended 30 September 2017

	<i>Note</i>	2017	2016
		£	Restated*
		£	£
Revenue	5	25,458,526	27,657,924
Cost of sales		(20,124,668)	(21,165,260)
Gross profit		5,333,858	6,492,664
Administrative expenses		(3,635,945)	(3,562,882)
Other income		102,389	82,611
Operating profit	6	1,800,302	3,012,393
Finance income	8	9,008	12,171
Finance costs	8	(87,017)	(38,421)
Finance – net	8	(78,009)	(26,250)
Profit on ordinary income before income tax		1,722,293	2,986,143
Income tax credit/(expense) on ordinary activities	9	5,285	(6,069)
Profit for the financial year and total comprehensive income		1,727,578	2,980,074

* The 2016 figures have been restated as disclosed within note 2.1.3.

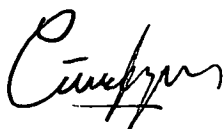
Statement of financial position at 30 September 2017

	Notes	2017 £	2016 Restated* £
Fixed assets			
Intangible assets	10	29,716	59,706
Property, plant and equipment	11	35,052	49,925
		<u>64,768</u>	<u>109,631</u>
Current assets			
Inventories	12	2,964,306	4,137,882
Trade and other receivables	13	8,603,248	8,338,692
		<u>11,567,554</u>	<u>12,476,574</u>
Creditors: amounts falling due within one year	14	<u>(6,424,980)</u>	<u>(6,136,409)</u>
Net current assets		<u>5,142,574</u>	<u>6,340,165</u>
Total assets less current liabilities		<u>5,207,342</u>	<u>6,449,796</u>
Provisions for liabilities	15	<u>(329,369)</u>	<u>(429,401)</u>
Net assets		<u>4,877,973</u>	<u>6,020,395</u>
Equity			
Ordinary shares	17	130,000	130,000
Capital contribution reserve		2,760,000	2,760,000
Retained earnings		1,987,973	3,130,395
Equity shareholders' funds		<u>4,877,973</u>	<u>6,020,395</u>

* The 2016 figures have been restated as disclosed within note 2.1.3.

The notes on pages 12 to 29 are an integral part of these financial statements.

The financial statements on pages 9 to 29 were authorised for issue by the board of directors on 28 June 2018 and were signed on its behalf.



G Harper
Managing Director
ThyssenKrupp System Engineering Limited
Registered number: 01294792
28 June 2018

Statement of changes in equity

	Notes	Called up share capital £	Capital contribution reserve £	Retained earnings £	Total equity £
Balance as at 1 October 2016 (*restated)		130,000	2,760,000	4,980,321	7,870,321
Profit for the financial year and total comprehensive income (*restated)		-	-	2,980,074	2,980,074
Dividends	18	-	-	(4,830,000)	(4,830,000)
Balance as at 30 September 2016 and 1 October 2017 (*restated)		130,000	2,760,000	3,130,395	6,020,395
Profit for the financial year and total comprehensive income		-	-	1,727,578	1,727,578
Dividends	18	-	-	(2,870,000)	(2,870,000)
Balance as at 30 September 2017		130,000	2,760,000	1,987,973	4,877,973

* The 2016 figures have been restated as disclosed within note 2.1.3.

Notes to the accounts

1 General information

ThyssenKrupp System Engineering Limited ('the company') manufactures, installs, modifies and maintains automotive assembly line equipment. The company sells mainly in the UK.

The company is a private company limited by shares and is incorporated and domiciled in England. The address of its registered office is Unit 5, The Felbridge Centre, East Grinstead, West Sussex, RH19 1XP.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements the company have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings and derivative financial assets and financial liabilities measured at fair value through profit or loss, and in accordance with the Companies Act 2006.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- IFRS 7, 'Financial Instruments: Disclosures'
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities)
- Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of:
 - paragraph 79(a)(iv) of IAS 1;
 - paragraph 73(e) of IAS 16 Property, plant and equipment;
 - paragraph 118(e) of IAS 38 Intangible assets (reconciliations between the carrying amount at the beginning and end of the period)
- The following paragraphs of IAS 1, 'Presentation of financial statements':
 - 10(d), (statement of cash flows)
 - 10(f) (a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements),
 - 16 (statement of compliance with all IFRS),
 - 38A (requirement for minimum of two primary statements, including cash flow statements),
 - 38B-D (additional comparative information),
 - 40A-D (requirements for a third statement of financial position),
 - 111 (cash flow statement information), and
 - 134-136 (capital management disclosures)
- IAS 7, 'Statement of cash flows';
 - Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective)
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation)
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

Notes to the accounts *(continued)*

2.1.1 Going concern

The company meets its day-to-day working capital requirements through its cash reserves and pool account borrowings. The current economic conditions continue to create uncertainty particularly over the level of demand for the company's products. The company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the company should be able to operate within the level of its current cash reserves and borrowings. After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The company therefore continues to adopt the going concern basis in preparing its financial statements.

2.1.2 Changes in accounting policy and disclosures

No new accounting standard, or amendments to accounting standards, or IFRIC interpretations that are effective for the year then ended 30 September 2017 have had a material impact on the company.

2.1.3 Prior year restatement

During the year the Company has amended its accounting policy for revenue contracts between £500,000 and £1,000,000 with the revenue now being recognised in line with IAS 11 (Constructions Contracts). Accordingly in line with IAS 8 (Accounting policies, changes in accounting estimates and errors) for a change in accounting policy the prior year results have been restated. The financial impact of the prior period restatement has been to increase the prior year profit from £2,795,716 to £2,980,074 and increase the prior year net assets from £5,727,529 to £6,020,395.

2.2 Consolidation

The company is a wholly owned subsidiary of Thyssenkrupp UK PLC and of its ultimate parent, Thyssenkrupp AG, a company incorporated in Germany. The company is included in the consolidated financial statements of Thyssenkrupp AG which are publically available.

These financial statements are separate financial statements.

2.3 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of the company are measured using the currency of the primary economic environment in which the company operates ('the functional currency'). The financial statements are presented in 'Pounds Sterling' (£), which is also the company's functional currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement within administrative expenses.

Notes to the accounts *(continued)*

2.4 Tangible Assets and Depreciation

Plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Short Leasehold improvements	-	over 5 years
Plant and Machinery	-	between 3 and 15 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within the income statement.

2.5 Intangible assets

Computer software

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the company are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed three years. The amortisation expense is recognised within administrative expenses.

2.6 Financial assets

2.6.1 Classification

The company classifies its financial assets in the following categories: at fair value through profit or loss, and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Notes to the accounts *(continued)*

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges (see Note 2.7). Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current investments.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The company's loans and receivables comprise receivables, cash and commercial paper in the balance sheet.

2.6.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within interest income or expenses in the period in which they arise.

2.6.3 Impairment of financial assets

(a) Assets carried at amortised cost

The company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

2.7 Derivative financial instruments and hedging activities

The company has not applied hedge accounting and all derivatives are measured at fair value through the income statement.

2.8 Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business.

Contract work in progress is stated at costs incurred, less those transferred to the income statement, after deducting foreseeable losses and payments on account not matched with turnover.

Notes to the accounts *(continued)*

2.9 Trade and other receivables

Trade and other receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

2.10 Cash and cash equivalents

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

2.11 Share capital

Ordinary shares are classified as equity.

2.12 Creditors

Creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

2.13 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in shareholders' funds. In this case, the tax is also recognised in other comprehensive income or directly in shareholders' funds, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; or arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Notes to the accounts *(continued)*

2.14 Employee benefits

The company operates a defined contribution pension scheme- see note 20. In addition, the company provides life assurance to all employees and private medical insurance to senior employees. An employee bonus scheme provides bonus based on company and individual employee performance.

2.15 Provisions

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation- see note 15.

2.16 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied and value added taxes.

The amount of profit attributable to the stage of completion of a long term contract is recognised when the outcome of the contract can be foreseen with reasonable certainty. Turnover for such contracts is stated at the cost appropriate to their stage of completion plus attributable profit, less amounts recognised in previous years. Provision is made for any losses as soon as they are foreseen.

2.17 Leases

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

2.18 Dividend distribution

Dividend distributions to the company's shareholders are recognised as a liability in the company's financial statements in the period in which the dividends are approved by the company's shareholders – see note 18.

2.19 Capital contribution reserve

Capital contributions received from the Company's parent undertaking are held within a separate reserve in equity and are not repayable.

Notes to the accounts *(continued)*

3 Critical accounting estimates and judgments

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

3.1 Critical accounting estimates and assumptions

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

(a) Impairment of trade receivables

The company makes an estimate of the recoverable value of trade and other debtors. When assessing impairment of trade and other receivables, management considers factors including the credit rating of the receivable, the ageing profile of receivables and historical experience. See note 13 for the net carrying amount of the receivables and associated impairment provision.

(b) General Provisions and contract accounting

The company provides for customer provisions as required and these include product warranty; customer contract loss provision; dilapidation costs on leased buildings - see note 15.

Notes to the accounts *(continued)*

4 Financial instruments

The amounts charged to the income statement for derivative financial instruments are as follows:

	2017	2016
	£	£
Derivative financial instruments	(64,980)	(73,429)

Derivative financial instruments

The company enters into forward foreign currency contracts to mitigate the exchange rate risk for certain foreign currency receivables. At 30 September 2017, the outstanding contracts all mature within 13 months (2016: 6 months) of the year end.

The forward currency contracts are measured at fair value, which is determined using valuation techniques that utilise observable inputs. The key assumptions used in valuing the derivatives are the exchange rates for GBP:USD and GBP:EUR.

5 Revenue

Analysis of revenue by geography

	2017	2016
	£	*Restated £
United Kingdom	25,458,526	27,657,924
	25,458,526	27,657,924

Analysis of revenue by category

	2017	2016
	£	£
Sale of goods	4,416,271	15,013,744
Services	21,042,255	12,644,180
	25,458,526	27,657,924

* The 2016 figures have been restated as disclosed within note 2.1.3.

Notes to the accounts *(continued)*

6 Operating profit

Operating profit is stated after charging:

	2017	2016
	£	£
Wages and salaries	4,006,158	4,003,722
Social security costs	407,187	408,659
Other pension costs (note 20)	273,807	265,485
Staff costs	4,687,152	4,677,866
Operating lease charges	385,690	312,789
Audit fees payable to the company's auditor	20,460	18,000

7 Employees and directors

The average monthly number of persons (including executive directors) employed by the company during the year was:

	Number of employees	
By activity	2017	2016
Production	56	60
Selling and distribution	4	4
Administration	18	18
	78	82

Directors

The directors' emoluments were as follows:

	2017	2016
	£	£
Aggregate emoluments	228,185	213,145
Company contributions to money purchase pension scheme	23,118	22,553
	251,303	235,698

Retirement benefits are accruing to the following number of directors under:

	2017	2016
	Number	Number
Money purchase scheme	1	1

Notes to the accounts *(continued)*

	2017	2016
	£	£
8 Interest income and expense		
Finance income		
Interest income from the Group	9,008	12,171
Finance expense		
Interest payable to the Group	(87,017)	(38,421)
Net finance cost		
Interest income	9,008	12,171
Interest expense	(87,017)	(38,421)
	(78,009)	(26,250)

Notes to the accounts *(continued)*

9 Income tax

Tax (credit)/expenses included in profit or loss

	2017 £	2016 £
Current tax:		
– UK Corporation tax on profits for the year	-	-
– Adjustment in respect of prior periods	-	-
Total current tax	-	-
Deferred tax:		
Origination and reversal of temporary differences	(7,635)	6,682
Adjustments in respect of prior periods	2,350	(613)
Total deferred tax	(5,285)	6,069
Tax on profit on ordinary activities	(5,285)	6,069

Tax (credit)/expense for the period is lower (2016: higher) than the standard rate of corporation tax in the UK for the year ended 30 September 2017 of 19.5% (2016: 20%). The differences are explained below:

	2017 £	2016 *Restated £
Profit on ordinary activities before tax	1,722,293	2,986,143
Profit multiplied by the standard rate of tax in the UK of 19.5% (2016: 20%)	335,847	597,229
Effects of:		
– Fixed asset difference	-	582
– group relief claimed	(346,527)	(611,199)
– Adjustments to tax charge in respect of prior years	2,350	(613)
– Expenses not deductible for tax purposes	2,556	2,508
– Changes in deferred tax rate	489	17,562
Tax Charge	(5,285)	6,069

* The 2016 figures have been restated as disclosed within note 2.1.3.

Factors that may affect future current and total tax charges

The tax rate for the current year is lower than the prior year due to changes in the UK Corporation tax rate which decreased from 20% to 19% from 1 April 2017.

A further reduction to 17% was substantially enacted on 6 September 2016 and is effective from 1 April 2020. Deferred tax at 30 September 2017 has been calculated based on the rate of 17% being the rate substantively enacted at the balance sheet date.

Notes to the accounts (continued)

10 Intangible assets

	Software £	Total £
Cost		
At 1 October 2016 and 30 September 2017	68,749	68,749
Accumulated amortisation		
At 1 October 2016	9,043	9,043
Charge for the year	29,990	29,990
At 30 September 2017	39,033	39,033
Net book value		
At 30 September 2017	29,716	29,716
At 30 September 2016	59,706	59,706

The assets are carried at £29,716 (2016: £59,706) and are amortised over a period of 3 years (2016: 3 years) on a straight-line basis. There are no other individually material intangible assets.

11 Property, plant and equipment

	Short leasehold property £	Plant, equipment, fixtures and fittings £	Total £
Cost			
At 1 October 2016	88,329	332,097	420,426
Additions	-	12,762	12,762
At 30 September 2017	88,329	344,859	433,188
Depreciation			
At 1 October 2016	68,831	301,670	370,501
Charge for the year	6,500	21,135	27,635
At 30 September 2017	75,331	322,805	398,136
Net book value			
At 30 September 2017	12,998	22,054	35,052
At 30 September 2016	19,498	30,427	49,925

Notes to the accounts *(continued)*

12 Inventories

	2017	2016
	£	*Restated £
Raw materials and consumables	6,475	32,449
Work in progress	3,968,868	5,461,741
Payment on account	(1,011,037)	(1,356,308)
	<u>2,964,306</u>	<u>4,137,882</u>

* The 2016 figures have been restated as disclosed within note 2.1.3.

There is no significant difference between the replacement cost of work in progress and finished goods and goods for resale and their carrying amounts.

Inventories are stated after provisions for impairment of £nil (2016: £nil).

13 Trade and other receivables

	2017	2016
	£	*Restated £
Due within one year:		
Trade receivables	3,905,552	2,900,536
Amounts owed by group undertakings	3,427,431	1,575,562
Other receivables	208,538	176,229
Prepayments and accrued income	951,702	3,563,752
Deferred tax asset	110,025	104,740
Derivative financial instruments	-	17,873
	<u>8,603,248</u>	<u>8,338,692</u>

Trade receivables of £nil (2016: £nil) fall due after more than one year.

Trade receivables are stated after provisions for impairment of £nil (2016: £nil).

Amounts owed by group undertakings are unsecured, have no fixed date of repayment and are repayable on demand. Amounts owed by group undertakings which relate to the intercompany pool account are interest bearing at 1.75% on Sterling account and 1.0% on Euro account.

* The 2016 figures have been restated as disclosed within note 2.1.3.

Notes to the accounts *(continued)*

14 Creditors: amounts falling due within one year

	2017	2016
	£	£
Amounts falling due within one year		
Creditors	2,730,230	3,298,188
Amounts owed to group undertakings	556,133	308,795
Taxation and social security	1,414,058	390,336
Other creditors	399,000	824,405
Derivative financial instruments	3,466	86,318
Accruals and deferred income	1,322,093	1,228,367
	6,424,980	6,136,409

Amounts owed to group undertakings are unsecured, have no fixed date of repayment and are repayable on demand. Amounts owed to group undertakings which relate to the intercompany pool account are interest bearing at 1.75% on Sterling account and 1.0% on Euro account.

Notes to the accounts *(continued)*

15 Provision for liabilities

The company had the following provisions during the year:

	Contract losses	Dilapidations	Warranty on completed contracts	Total
	£	£	£	£
At 1 October 2016	317,303	74,007	38,091	429,401
Additions to the income statement	709,753	6,000	9,015	724,768
Amounts utilised	(819,179)	-	(5,621)	(824,800)
At 30 September 2017	207,877	80,007	41,485	329,369

Contract losses provision

The provision for contract losses reflects the expected losses, based on total costs to complete compared to sales value, to arise on any customer contract at the balance sheet date.

Dilapidations provision

This relates to the expected dilapidation costs of returning a leasehold property to the state of condition required by the lease at its termination. These costs will be incurred within five years of the balance sheet date.

Warranty provisions

The warranty provision relates to warranties given to customers. The directors have provided for claims that are expected to arise between the balance sheet date and the expiry of warranty. It is expected that this expenditure will be incurred within two years of the balance sheet date.

Notes to the accounts *(continued)*

16 Deferred tax

The provision for deferred tax consists of the following deferred tax assets:

	2017 £	2016 £
Deferred tax assets due after more than 12 months	110,025	104,740
Total deferred tax assets	110,025	104,740

Deferred tax assets

	Accelerated capital allowances	Revaluation of derivative financial liabilities	Short term timing difference	Total
	£	£	£	£
At 1 October 2015	(96,061)	997	(15,745)	(110,809)
(Charged)/credited to the income statement	9,121	(12,673)	9,621	6,069
At 30 September 2016	(86,940)	(11,676)	(6,124)	(104,740)
(Charged)/credited to the income statement	(6,241)	(1,287)	2,203	(5,285)
At 30 September 2017	(93,181)	(12,923)	(3,921)	(110,025)

There are no unused tax losses or unused tax credits.

Notes to the accounts *(continued)*

17 Share capital

Ordinary shares of £1 each

Allocated and fully paid	2017 No.	2016 No.
At 1 October and 30 September	130,000	130,000

18 Dividends

	2017 £	2016 £
Ordinary shares		
2,207.69p (2016: 3,715.38p) per £1 share	2,870,000	4,830,000

Notes to the accounts *(continued)*

19 Capital and other commitments

The company had the following future minimum lease payments under non-cancellable operating leases for each of the following periods:

	2017			2016		
	Property	Motor vehicles	Other	Property	Motor vehicles	Other
	£	£	£	£	£	£
Not later than one year:	210,000	53,302	2,312	131,331	39,268	3,939
Later than one year and not later than five years	210,000	36,034	684	93,506	35,343	3,080
	<u>420,000</u>	<u>89,336</u>	<u>2,996</u>	<u>224,837</u>	<u>74,611</u>	<u>7,019</u>

20 Pensions

The company operates a defined contribution scheme. The total pension cost for the company for this scheme was £273,807 (2016: £265,485). The amount of pension contributions owed by the company to the pension scheme at the balance sheet date was £36,485 (2016: £35,190).

21 Ultimate parent company and immediate parent undertaking

The company regarded by the directors as being the ultimate controlling company is ThyssenKrupp AG which is incorporated in Germany. This is the largest and smallest group within which ThyssenKrupp System Engineering Limited is consolidated. The consolidated financial statements of ThyssenKrupp AG can be obtained from ThyssenKrupp, Allee 1, Postfach 45063, 45143 Essen, Germany.

The company is a wholly owned subsidiary of ThyssenKrupp UK PLC, registered in England.