

Registration number: 06606708

Schaltbau Machine Electrics Limited
Annual Report and Financial Statements
for the Year Ended 31 December 2019



Schaltbau Machine Electrics Limited

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Schaltbau Machine Electrics Limited

Company Information

Directors	T Fox D R Konrad
Secretary	D Y Chen
Registered office	335 – 336 Woodside Way Springvale Industrial Estate Cwmbran Torfaen NP44 5BR
Independent auditors	PricewaterhouseCoopers LLP One Kingsway Cardiff CF10 3PW

Schaltbau Machine Electrics Limited

Directors' Report for the Year Ended 31 December 2019

The directors present their report and the audited financial statements for the year ended 31 December 2019.

Directors' of the company

The directors, who held office during the year, were as follows:

T Fox
D R Konrad

Principal activities

The principal activity of the company is the manufacture, repair and distribution of electrical components for use in a broad spread of industries.

Fair review of the business

The company's key financial and other performance indicators during the year were as follows:

	Unit	2019	2018
Turnover	£000	6,096.00	6,078.00
Gross profit margin	%	38.25	37.68
Profit before tax	£000	359.00	312.00
Profit before tax as a percentage of turnover	%	5.89	5.13

Business review

Principal risks and uncertainties

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and investment securities.

The carrying amount of financial assets of £1,254,000 (2018: £1,224,000) represents the maximum credit exposure. In addition, the Company has established a credit policy under which each new customer is analysed for creditworthiness before the standard payment and delivery terms and conditions are offered. The Company also maintains for each customer sale limits that if exceeded require approval from management.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company monitors the level of expected cash inflows on trade and other receivables together with expected cash outflows on trade and other payables. In addition, the Company is supported by the parent Company with a line of credit that can be drawn down to meet short-term financing requirements.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments.

The Company is exposed to currency risk to the extent that there is a mismatch between the currencies in which sales, purchases and borrowings are denominated. The Company's policy is to ensure that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances. The results for the year are set out in the Income Statement on page 9.

Schaltbau Machine Electrics Limited

Directors' Report for the Year Ended 31 December 2019

Although the Company continues to operate in a difficult trading environment, positive earnings before interest and tax (EBIT) were achieved for 2019 and the prior three years. Considering the growth in demand for products in its area of specialty the directors consider that its planned revenues and profits should enable the Company to continue in operational existence for the foreseeable future.

The directors have also identified COVID-19 as a possible financial risk to the company. Thus far the pandemic has not resulted in any material shortages or any increase in absence level within the workforce. However, the company has made use of the government's Coronavirus Job Retention Scheme as and when appropriate. The directors recognise that the uncertainties associated with the ongoing pandemic could change this.

The directors have reviewed the impact of COVID-19 and have made the necessary changes to the processes.

- Enhanced safety and hygiene procedures to safeguard our employees have been put in place including an increased sanitisation regime across the factory, physical distancing measures and home working where possible.
- All agency workers have been released
- Visits from external parties are now held on online meeting applications such as Microsoft Teams or Zoom wherever possible.

Political donations

The Company made no political donations or incurred any political expenditure during the year (2018: £nil).

Employment of disabled persons

The company's policy is to recruit disabled workers for those vacancies that they are able to fill. All necessary assistance with initial training courses is given. Once employed, a career plan is developed so as to ensure suitable opportunities for each disabled person. Arrangements are made, wherever possible, for retraining employees who become disabled, to enable them to perform work identified as appropriate to their aptitudes and abilities.

Employee involvement

The company's policy is to consult and discuss with employees, through staff meetings, all matters likely to affect employees' interests.

Information on matters of concern to employees is given through bulletins and reports that seek to achieve a common awareness on the part of all employees of the financial and economic factors affecting the company's performance.

Engagement with suppliers, customers and other business relationships

As part of the Schaltbau Group, Schaltbau Machine Electrics Limited conforms to the Schaltbau Group Code of Conduct which all employees are asked to observe in their day to day activities.

The code of conduct sets out the foundations of how the company deals with all of its stakeholders.

This includes but is not limited to:

- Expectations towards business partners
- Corporate principles
- General conduct for employees and the company
- Conduct of the company towards its employees
- Conduct of employees towards the company and third parties
- Compliance implementation and Control

The company's local management is responsible to ensure compliance to the Code of Conduct. Schaltbau Group monitor compliance through its compliance system and regular audit.

Schaltbau Machine Electrics Limited

Directors' Report for the Year Ended 31 December 2019

Future developments

New products remain the key drivers for growth. A strong range is being well stocked for 2019 and this is expected to continue into 2020. This together with the continuation of increased marketing and PR should produce positive growth in the coming year.

Research and development

No significant research and development were conducted during the year. This is mainly conducted by the immediate parent Schaltbau GmbH.

Going concern

The company's business activities, together with factors likely to affect its future development and position, are set out above.

The company is expected to continue to generate positive cash flows and as such the directors have a reasonable expectation that the company will be able to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Due to COVID-19 the company has adjusted its forecasts and is still expected to continue posting positive results and to generate positive cash flows.

Disclosure of information to the auditors

Each director has taken steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information. The directors confirm that there is no relevant information that they know of and of which they know the auditors are unaware.

Reappointment of auditors

The independent auditors PricewaterhouseCoopers LLP are deemed to be reappointed under section 487(2) of the Companies Act 2006.

The financial statements on pages 8 to 10 were approved by the Board of Directors on 23rd September 2020 and signed on its behalf by:



.....
T Fox
Director

Schaltbau Machine Electrics Limited

Statement of Directors' Responsibilities

The directors acknowledge their responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework' ('FRS 101'). 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 apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether FRS 101 has been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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



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T Fox
Director

Date: 25th September 2020

Independent auditors' report to the members of Schaltbau Machine Electrics Limited

Report on the audit of the financial statements

Opinion

In our opinion, Schaltbau Machine Electrics Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 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 31 December 2019; 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 where:

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

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.

Schaltbau Machine Electrics Limited

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

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 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 set out on page 5, 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.



Jonathan Bound (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cardiff
25 September 2020

Schaltbau Machine Electrics Limited

Income Statement for the Year Ended 31 December 2019

	Note	2019 £ 000	2018 £ 000
Revenue	3	6,096	6,078
Cost of sales		<u>(3,764)</u>	<u>(3,788)</u>
Gross profit		2,332	2,290
Administrative expenses		<u>(1,956)</u>	<u>(1,968)</u>
Operating profit	4	376	322
Finance costs	7	<u>(17)</u>	<u>(10)</u>
Profit before taxation		359	312
Income tax (expense)/credit	8	<u>(5)</u>	<u>138</u>
Profit for the financial year		<u>354</u>	<u>450</u>

The above results were derived from continuing operations.

The company has no recognised gains or losses for the year other than the results above.

Schaltbau Machine Electrics Limited

Statement of Financial Position as at 31 December 2019

	Note	2019 £ 000	2018 £ 000
Assets			
Non-current assets			
Property, plant and equipment	9	285	252
Right of use assets	10	279	-
Deferred tax assets	8	332	329
		<u>896</u>	<u>581</u>
Current assets			
Inventories	11	900	994
Trade and other receivables	12	734	769
Cash and cash equivalents	13	587	547
		<u>2,221</u>	<u>2,310</u>
Total assets		<u>3,117</u>	<u>2,891</u>
Equity and liabilities			
Equity			
Called up share capital	14	590	590
Capital redemption reserve		4,372	4,372
Profit and loss account		(2,849)	(3,203)
		<u>2,113</u>	<u>1,760</u>
Non-current liabilities			
Deferred tax liabilities	8	34	26
Lease liabilities	10	196	-
Current liabilities			
Trade and other payables	15	773	1,106
Total liabilities		<u>1,003</u>	<u>1,132</u>
Total equity and liabilities		<u>3,117</u>	<u>2,891</u>

These financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies' regime.

The notes on pages 12 to 28 are an integral part of these financial statements.

Approved by the Board on 23rd September 2020 and signed on its behalf by:



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T Fox
Director
Schaltbau Machine Electrics Ltd
Company registration number: 06606708

Schaltbau Machine Electrics Limited

Statement of Changes in Equity for the Year Ended 31 December 2019

	Called up share capital £ 000	Capital redemption reserve £ 000	Profit and loss account £ 000	Total £ 000
At 1 January 2019	590	4,372	(3,202)	1,760
Profit for the year	-	-	354	354
At 31 December 2019	590	4,372	(2,848)	2,114

	Called up share capital £ 000	Capital redemption reserve £ 000	Profit and loss account £ 000	Total £ 000
At 1 January 2018	590	4,372	(3,652)	1,309
Profit for the year	-	-	450	450
At 31 December 2018	590	4,372	(3,202)	1,759

Schaltbau Machine Electrics Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

1 General information

The principal activity of the company is the manufacture, repair and distribution of electrical components for use in a broad spread of industries. The Company is controlled by Schaltbau GmbH who owns 100% of the share capital of Schaltbau Machine Electrics Limited. Schaltbau GmbH is a subsidiary of the ultimate controlling party, Schaltbau Holding AG.

The company is a private company limited by share capital, incorporated and domiciled in the United Kingdom.

The address of its registered office is:
335-336 Woodside Way
Springvale Industrial Estate
Cwmbran
Torfaen
NP44 5BR

2 Accounting policies

Summary of significant accounting policies and key accounting estimates

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.

Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework. The presentation currency of these financial statements is Sterling. All amounts have been rounded to the nearest £1,000.

Summary of disclosure exemptions

The financial statements of Schaltbau Machine Electrics Ltd 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 and loss, and in accordance with the Companies Act 2006.

The Company's ultimate parent undertaking, Schaltbau Holding AG includes the Company in its consolidated financial statements. The consolidated financial statements of Schaltbau Holding AG are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from Hollerithstrasse 5, 81829, Munich.

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.

Schaltbau Machine Electrics Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

2 Accounting policies (continued)

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

- Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payment' (details of the number and weighted average exercise prices of share options, and how the fair value of goods or services received was determined).
- 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:
 - iii. Paragraph 79(a)(iv) of IAS 1;
 - iv. Paragraph 73(e) of IAS 16, 'Property, plant and equipment'; and
- The following paragraphs of IAS 1, 'Presentation of financial statements':
 - 10(d) (statement of cash flows);
 - 16 (statement of compliance with all IFRS);
 - 38B–D (additional comparative information);
 - 111 (statement of cash flows information); and
 - 134–136 (capital management disclosures).
- IAS 7, 'Statement of cash flows'.
- Paragraphs 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.

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

Going concern

The financial statements are prepared on a going concern basis. The directors have considered the working capital requirements for a period of 12 months from the date of this report. As a consequence, the directors believe that the company is well placed to manage its business risks successfully despite the current uncertain economic outlook due to COVID-19. After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Adoption of new accounting standards in the year

The new standards, amendments and interpretation have been adopted by the Company. The following accounting standards have been implemented in the year:

IFRS 16, 'Leases' replaces the guidance on leases of IAS 17. IFRS 16 proposes a new model of recognition the lease contracts according to which almost all leases are recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, a financial asset (the right to use the leased item), and a financial liability (the obligation to pay rentals) are recognised, with the only exceptions being short-term, and low-value leases.

Schaltbau Machine Electrics Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

2 Accounting policies (continued)

IFRS 16 is a new accounting standard that is effective for the year ended 31 December 2019 and has a material impact on the company's financial statements – see notes 10 and 19. There are no other amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 December 2019 that have had a material impact in the company's financial statements.

Leases

The company leases the office, equipment and vehicles. Rental contracts are typically made for fixed periods of 2 to 5 years but may have extension options. Contracts may contain both lease and non-lease components. The company allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the company is a lessee and for which it has major leases, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance leases or operating leases. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the company.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable by the company under residual value guarantees;
- The exercise price of a purchase option if the company is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the company exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the company, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

The company is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability;
- Any lease payments made at or before the commencement date less any lease incentives received;
- Any initial direct costs; and
- Restoration costs.

Schaltbau Machine Electrics Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

2 Accounting policies (continued)

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

As explained previously, the company has changed its accounting policy for leases where the company is the lessee. The impact of the change is explained in note 10 and 20. Prior to this change, leases of property, plant and equipment where the company, as lessee, had substantially all the risks and rewards of ownership were classified as finance leases. Finance leases were capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, were included in creditors: amounts falling due within 12 months and the long-term component was included in creditors: amounts falling due after more than one year. Each lease payment was allocated between the liability and finance cost. The finance cost was charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases was depreciated over the asset's useful life, or over the shorter of the asset's useful life and the lease term if there was no reasonable certainty that the company would obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership were not transferred to the company as lessee were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and provision of services in the ordinary course of the company's activities. Revenue is shown net of sales/value added tax, returns, rebates and discounts.

The company recognises revenue when:

The amount of revenue can be reliably measured;
it is probable that future economic benefits will flow to the entity;
and specific criteria have been met for each of the company activities.

Application of IFRS 15 (revenue from contracts with customers) was mandatory with effect from 1 January 2018 and has been incorporated into our financial statements. The company opted to apply the modified retrospective method as in its consolidated financial statements at the ultimate parent, Schaltbau Holding AG.

Foreign currency transactions and balances

Transactions in foreign currencies are translated to the Company's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the profit and loss account. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other debtors, cash and cash equivalents, loans and borrowings, and trade and other creditors.

Schaltbau Machine Electrics Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

2 Accounting policies (continued)

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Tax

The tax expense for the period comprises deferred tax. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company operates and generates taxable income.

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 and on unused tax losses or tax credits in the company. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

The carrying amount of deferred tax assets are reviewed at each reporting date and a valuation allowance is set up against deferred tax assets so that the net carrying amount equals the highest amount that is more likely than not to be recovered based on current or future taxable profit.

Property, plant and equipment

Property, plant and equipment is stated in the statement of financial position at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The cost of property, plant and equipment includes directly attributable incremental costs incurred in their acquisition and installation.

Depreciation

Depreciation is charged so as to write off the cost of assets, other than land and properties under construction over their estimated useful lives, as follows:

Asset class	Depreciation method and rate
Plant and machinery	3-15 years
Motor vehicles	4 years

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and call deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Schaltbau Machine Electrics Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

2. Accounting policies (continued)

Trade and other debtors

Trade and other debtors 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.

Trade and other debtors are recognised initially at the transaction price. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for the impairment of trade receivables is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the receivables.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using standard costing.

The cost of finished goods and work in progress comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. At each reporting date, inventories are assessed for impairment. If inventory is impaired, the carrying amount is reduced to its selling price less costs to complete and sell; the impairment loss is recognised immediately in profit or loss.

Trade and other creditors

Trade and other creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other creditors are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method.

Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

Share capital

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

Defined contribution pension obligation

A defined contribution plan is a pension plan under which fixed contributions are paid into a separate entity and has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans contributions are paid publicly or privately administered pension insurance plans on a mandatory or contractual basis. The contributions are recognised as employee benefit expense when they are due. If contribution payments exceed the contribution due for service, the excess is recognised as an asset.

Schaltbau Machine Electrics Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

2 Accounting policies (continued)

Financial assets and liabilities

Classification

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at historic cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Recognition and measurement

The carrying amounts of the Company's non-financial assets, other than stocks and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2.2 Critical accounting estimates and judgement

The preparation of financial statements in conformity with FRS 101 requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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:

Schaltbau Machine Electrics Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

2 Accounting policies (continued)

2.2.1 Lease accounting

These liabilities are measured at the net present value of the remaining lease payments, discounted at the lessee's incremental borrowing rate at 1 January 2019. The lessee's weighted average incremental borrowing rate applied to lease liabilities as at 1 January 2019 was 3.95%. The discount rate used was based on yields of EUR-denominated reference bonds of non-financial companies with comparable credit ratings. Yields for specific maturities were determined using a classical linear regression analysis model.

2.2.2 Judgements

The company has a formal policy for making provisions for stock and debtors to ensure they are stated at the lower of cost and net realisable value.

3 Revenue

The analysis of the company's turnover for the year from continuing operations is as follows:

	2019 £ 000	2018 £ 000
Sale of goods	6,096	6,078

The analysis of the company's turnover for the year by market is as follows:

	2019 £ 000	2018 £ 000
UK	2,412	2,334
Europe	2,332	2,038
Rest of world	1,352	1,706
	6,096	6,078

4 Operating profit

Arrived at after charging/(crediting)

	2019 £ 000	2018 £ 000
Audit Fees	18	16
Inventory recognised as an expense	3,764	3,788
Depreciation	148	42
Foreign exchange losses	8	7
	3,938	3,853

Schaltbau Machine Electrics Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

5 Staff costs

The aggregate payroll costs (including directors' remuneration) were as follows:

	2019 £ 000	2018 £ 000
Wages and salaries	951	914
Social security costs	87	79
Other pension costs	37	35
	<u>1,075</u>	<u>1,028</u>

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

	2019 No.	2018 No.
Production	19	17
Administration and support	19	19
	<u>38</u>	<u>36</u>

6 Directors' remuneration

The directors' remuneration for the year was as follows:

This relates to the highest paid director as the other director is remunerated by the parent company as in prior years.

	2019 £ 000	2018 £ 000
Remuneration	106	145
Benefits in kind	7	10
Contributions paid to money purchase schemes	7	8
	<u>120</u>	<u>163</u>

7 Finance costs

	2019 £ 000	2018 £ 000
Interest expense to group companies	3	10
Lease liability	14	-
	<u>17</u>	<u>10</u>

Schaltbau Machine Electrics Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

8 Income tax (expense)/credit

Tax charged/(credited) in the income statement

2019	2018
£ 000	£ 000

Deferred taxation

Arising from origination and reversal of temporary differences

	5	(138)
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The differences are reconciled below:

	2019 £ 000	2018 £ 000
Profit before tax	359	312
Corporation tax at standard rate	68	59
Adjustment to tax charge previous periods – deferred tax	7	-
Tax decrease from utilisation of tax losses	(63)	(192)
Adjust closing deferred tax to average rate	61	69
Adjust opening deferred tax to average rate	(68)	(74)
Total tax charge/(credit)	5	(138)
	5	(138)

The tax rate for the current year is the same as the prior year.

Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2016 (on 6 September 2016). These include reductions to the main rate, to reduce the rate to 17% from April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in the financial statements. In November 2019, the Prime Minister announced that he intended to cancel the future reduction in corporate tax from 19% to 17%. This announcement does not constitute substantive enactment and therefore deferred taxes at the balance sheet date continue to be measured at the enacted rate of 17%. Post year end on 17 March 2020 as part of the Spring Budget 2020 it was subsequently enacted that the previously enacted decrease in the corporate tax rate from 19% to 17% from 1 April 2020 would no longer happen and that rates would remain at 19% for the foreseeable future. The difference in rate is not deemed significant for the calculation.

Deferred tax

Deferred tax assets and liabilities

	Asset £ 000	Liability £ 000	Net deferred tax £ 000
2019			
Accelerated tax depreciation	-	(34)	(34)
Tax losses carry-forwards	291	-	291
Other items	41	-	41
	332	(34)	298

Schaltbau Machine Electrics Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

8 Income tax (expense)/credit (continued)

Deferred tax movement during the year:

	At 1 January 2019 £ 000	Recognised in income £ 000	At 31 December 2019 £ 000
Accelerated tax depreciation	(26)	(8)	(34)
Tax losses carry-forwards	275	16	291
Other items	54	(13)	41
Net tax assets/(liabilities)	303	(5)	298

9 Property, plant and equipment

	Motor vehicles £ 000	Plant and machinery £ 000	Total £ 000
Cost			
At 1 January 2019	4	1,084	1,088
Additions	-	80	80
At 31 December 2019	4	1,165	1,169
Accumulated depreciation			
At 1 January 2019	4	832	836
Charge for the year	-	47	47
At 31 December 2019	4	880	884
Carrying amount			
At 31 December 2019	-	285	285
At 31 December 2018	-	252	252

Schaltbau Machine Electrics Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

10 Leases

The company has lease contracts for various offices, warehouses, equipment and tools used in the operations. The amounts recognised in the financial statements in relation to the leases are as follows:

Amounts recognised in the statement of financial position

Right-of-use assets

	Land & buildings £ 000	Plant and machinery £ 000	Total £ 000
Cost			
At 1 January 2019	-	-	-
On adoption of IFRS 16	362	18	380
At 31 December 2019	362	18	380
Depreciation			
At 1 January 2019	-	-	-
Charge for the year	89	12	101
At 31 December 2019	89	12	101
Carrying amount			
At 31 December 2019	273	6	279
At 31 December 2018	-	-	-

Lease liability

	31 December 2019 £ 000	1 January 2019 £ 000
Short term	67	94
Long term	196	286
	263	379

In the previous year, the company only recognised lease assets and lease liabilities in relation to leases that were classified as 'finance leases' under IAS 17 Leases. The assets were presented in property, plant and equipment and the liabilities as part of the company's borrowings. For adjustments recognised on adoption of IFRS 16 on 1 January 2019, please refer to note 19.

Schaltbau Machine Electrics Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

10 Leases (continued)

Amounts recognised in the income statement

Depreciation Charge of right-of-use assets

	2019 £ 000
Land & Buildings	89
Plant & Machinery	12
	<u>101</u>

Other lease related expenses

	2019 £ 000
Interest expense (included in finance costs, note 7)	14
Expense related to variable lease payments not included in lease liabilities	0
Expenses related to short term leases	0
Expenses related to low value assets	5
	<u>19</u>

	31-12-2019 £ 000	01-01-2019 £ 000
Not later than 1 year	100	107
Later than one year and not later than 5 years	204	304
Total gross payments	<u>304</u>	<u>412</u>
Impact on finance expenses	<u>(41)</u>	<u>(33)</u>
Carrying amount of liability	<u>263</u>	<u>379</u>

The total cash outflow for leases in 2019 was £107,000 (2018: £107,000).

Schaltbau Machine Electrics Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

11 Inventories

	2019 £ 000	2018 £ 000
Raw materials and consumables	191	196
Work in progress	386	359
Finished goods and goods for resale	323	439
	<u>900</u>	<u>994</u>

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

Inventories are stated after provision for impairment of £ 210,000 (2018: £ 250,000)

12 Trade and other receivables

	2019 £ 000	2018 £ 000
Trade receivables	542	531
Amounts owed by group undertakings	125	146
Prepayments	52	89
Other receivables	15	3
Total current trade and other receivables	<u>734</u>	<u>769</u>

Amounts owed by group undertakings are unsecured and need to be paid between 30-60 days of date of invoice.

Trade receivables are stated after provision for impairment of £ 5,000 (2018: £ 5,000)

No trade receivables fall due after more than one year.

Schaltbau Machine Electrics Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

13 Cash and cash equivalents

	2019 £ 000	2018 £ 000
Cash at bank	587	547

14 Share capital

Allotted, called up and fully paid shares

	2019		2018	
	No. 000	£ 000	No. 000	£ 000
Ordinary shares of £1 each	590	590	590	590

15 Trade and other payables

	2019 £ 000	2018 £ 000
Trade payables	317	380
Accruals and deferred income	128	134
Amounts owed to group undertakings	177	513
Social security and other taxes	46	46
Lease liability	67	-
Other payables	38	33
	<u>773</u>	<u>1,106</u>

The company initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. Thus, the comparative lease liabilities presented are based on IAS 17 while for the current year are based in IFRS 16.

Amounts owed to group undertakings are unsecured and need to be paid between 30 – 60 days of date of invoice.

16 Defined contribution pension scheme

The Company operates a defined contribution pension scheme. The total expense relating to this plan in the current year was £26,000 (2018 - £20,000). In addition, the company made contributions into employees' private pension schemes of £11,000 (2018 - £15,000).

17 Related party transactions

The Company is controlled by Schaltbau GmbH who owns 100% of the share capital of Schaltbau Machine Electrics Limited. Schaltbau GmbH is a subsidiary of the ultimate controlling party, Schaltbau Holding AG.

Schaltbau Machine Electrics Limited

Notes to the Financial Statements for the Year Ended 31 December 2019

18 Parent and ultimate parent undertaking

The Company is a subsidiary undertaking of Schaltbau Holding AG which is the ultimate parent company incorporated in Germany.

The largest group in which the results of the Company are consolidated is that headed by Schaltbau Holding AG. No other group financial statements include the results of the Company. The consolidated financial statements of this group are available to the public and may be obtained from Hollerithstrasse 5, 81829, Munich.

19 Effect of adoption of IFRS 16

As a result of the first-time application of IFRS 16, the company has recognised lease liabilities for leases previously classified as operating leases under IAS 17. These liabilities are measured at the net present value of the remaining lease payments, discounted at the lessee's incremental borrowing rate at 1 January 2019. The lessee's weighted average incremental borrowing rate applied to lease liabilities as at 1 January 2019 was 3.95%. The discount rate used was based on yields of EUR-denominated reference bonds of non-financial companies with comparable credit ratings. Yields for specific maturities were determined using a classical linear regression analysis model. In the case of leases previously classified as finance leases, the carrying amounts of leased assets and lease liabilities pursuant to IAS 17 immediately before first-time adoption of IFRS 16 were recognised as the initial carrying amounts of right-of-use-assets and lease liabilities pursuant to IFRS 16. The measurement principles stipulated by IFRS 16 were only applied after this step. Application of the materiality principle meant that no valuation adjustments were required.

The related right-of-use assets were recognised at the amount of the corresponding lease liabilities. No onerous leases were in place at the date of the first-time application of IFRS 16. Accordingly, there was no requirement to recognise any impairment losses on right-of-use assets in this respect.

As permitted by IFRS 16.47, right-of-use assets and lease liabilities are presented separately in the notes rather than on the face of the balance sheet. The company shows both in the balance sheet.

Practical expedients applied

The Company made use of the following practical expedients on the first-time application of IFRS 16:

- Application of a single discount rate to a portfolio of similarly structured leases.
- Taking over previous assessments as to whether a lease is onerous.
- Leases with a remaining term of less than 12 months at 1 January 2019 are accounted for as current leases.
- Non-consideration of initial direct costs in the measurement of values in use at the date of initial application

For leases entered into prior to the transition date, the Company has decided to retain the previous assessment under IAS 17 and IFRIC 4, rather than reassess whether a contract is, or contains, a lease arrangement at the date of initial application.

Schaltbau Machine Electrics Limited

Measurement of lease liabilities

	£ 000
Operating lease liabilities reported at 31 December 2018	414
- Discounting in accordance with IFRS 16	(33)
+ Lease liabilities at 31 December 2018 in accordance with IAS 17	0
- Short-term leases recognised as an expense on a straight-line-basis	(2)
- Leases of low-value assets recognised as an expense on a straight-line-basis	0
Lease liabilities as at 1. January 2019 (carrying amount)	379
Of which are:	
Current lease liabilities	94
Non-current lease liabilities	286
	379

iii. Adjustments recognised in the statement of financial position on 1 January 2019

	£ 000
Right-of-use assets – increase by	379
Lease liabilities – increase by	379

20 Events after the reporting period

COVID-19

Schaltbau Machine Electrics has reviewed the impact of the current restrictions created by the COVID-19 outbreak and have made the necessary changes to its processes to allow it to remain open and continue to provide components to key customers in the transport and logistics industry. Although our supply chain has been affected, we have avoided any supply issues and do not expect the situation to deteriorate going forward. Following a strong performance in Q1 2020 we entered the crisis with a strong cash balance, and we are monitoring this regularly. In Q2 2020 we have started to furlough some employees under the government's Coronavirus Job Retention Scheme. This has helped in achieving a positive result in Q2 2020. Our order book has been affected but we are confident that with the orders we have in hand we will post a positive result in Q3. Beyond that we expect a gradual improvement in the market as restrictions have been gradually eased.

There is no deemed impact on the going concern basis these financial statements have been prepared nor any balances in these financial statements as deemed a non-adjusting event after the reporting period.