# Eaton MEDC Limited

**Registered Number: 01202172**

**Report and Financial Statements**

31 December 2018

# Corporate information

## Directors
S Forster
G Evans
S Matthieson

## Auditors
Ernst & Young LLP
G1
5 George Square
Glasgow G2 1DY

## Bankers
Deutsche Bank AG
1 Great Winchester Street
London
EC2N 2DB

## Solicitors
Eversheds
1 Wood Street
London
EC2V 7WS

## Registered Office
Unit B Sutton Parkway
Oddicroft Lane
Sutton In Ashfield
NG17 5FB

# Strategic report

The Directors present their strategic report for the year ended 31 December 2018.

## Principal activities

The principal activity of the company during the year was design, manufacture and supply of electrical and electronic equipment and systems for use in hazardous areas.

The directors do not anticipate any changes in the company's activities in the foreseeable future.

## Business review

It was another challenging year with the continued integration of the CCTV and PAGA product lines, along with subdued global markets, which have meant an ongoing emphasis on cost control.

- Eaton MEDC continues to trade successfully, globally, in the oil and gas sector.
- The 2018 P&L now includes 12 months of trading from the Cooper Crouse-Hinds business, as opposed to 3 months in 2017.
- Growth opportunities in the CCTV product line were recognised with almost 200% growth.
- Gross profit margin reduced with the full year P&L inclusion of the Cooper Crouse-Hinds business. Margins are expected to improve as the benefits of the cost productivity programme driven from the product line integrations take effect.
- Return on Sales was impacted by increased royalty fees and further investment in our Distribution and Administrative areas to improve efficiency and customer service. The 2017 Return on Sales were also significantly higher due to the gain on disposal of intangible assets of £6.2m.
- Debtor days and Creditors performance have improved with the full year P&L inclusion of the Cooper Crouse-Hinds business. Cash is swept daily by Group and appears as a group debtor.

2019 will continue to be a challenging year due to the uncertainties within the oil and gas markets, but the company is in a strong position to exploit the opportunities available and the enhanced product range available through the Eaton group.

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

The Company's key financial and other performance indicators during the year and historical trend data, together with definition, method of calculation and analysis is set out below:

| | *Definition* | *2018* | *2017* |
|---|---|---|---|
| Return on sales | OP/Turnover | 9.6% | 41.7% |
| Gross profit % | GP/Turnover | 33.3% | 43.1% |
| Profit before taxation % | PBT/Turnover | 7.9% | 39.1% |
| Operating working capital turns | Turnover/Trade debtors + stocks-trade creditors | 1.18 | 1.27 |
| Stock turns | Annual COS/stocks | 5.87 | 3.98 |
| Operating profit per employee (£000) | OP/employees | 15.6 | 40.6 |
| Trade debtor days | Trade debtors/Av sales per day | 41.8 | 50.7 |
| Trade creditor days | Trade creditors/Av purchases per day | 36.8 | 52.2 |

# Strategic report (continued)

## Principal risks and uncertainties

The company is exposed to a number of financial risks outlined in the financial risk management section of the Directors' report.

Furthermore, the management of the business and the execution of the company's strategy are subject to a number of key business risks affecting the company, which are set out below:

**Competitive risks**
Whilst the number of competitors is relatively small in the market, there is strong competition between companies on price, service and technology. The winning of project business which is a large part of the turnover is subject to all these pressures.
There are also a number of low cost producers entering the market from the Far East who are difficult to compete with if certified products are not specified on a project.

**Legislative risks**
Hazardous Area products are certified to international and local standards around the world. These standards are subject to continuous revision and any new directive may have a material impact on the ability of the company to manufacture and supply products. In addition, compliance imposes costs and failure to comply with the standards could materially affect the company's ability to operate in a particular market.

**Financial risks**
As the company operates worldwide and sells in different currencies, exchange rate movement is a constant risk to profitability as it is not possible to revise prices continually.

**Economic risks**
The oil and gas industry is still a challenging market. The demand for oil, and thus the price of oil, is a major factor on the market for the company's products, as is the long-term reserves of oil. This linked with political instabilities in parts of the world, means that demand can fluctuate from year to year.

**Brexit**
Eaton has implemented workstreams across all functional areas to review the impact of Brexit on its businesses and has a contingency plan in place for all scenarios that can be implemented if required. The Company is confident that the underlying business will be able to meet any initial and on-going challenges or opportunities that Brexit may bring.

By order of the board

G Evans
Director
26 September 2019

Registered No. 01202172

# Directors' report

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

## Directors

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

| | |
|---|---|
| S Forster | |
| S Matthieson | (appointed 21 June 2018) |
| G Evans | (appointed 21 June 2018) |
| D E Evans | (resigned 14 October 2018) |
| L M Oxnard | (resigned 29 March 2018) |

## Results and Dividends

The profit for the year after taxation was £5,175,000 (2017 - £12,164,000). The directors do not recommend that a dividend is paid (2017 – £nil).

## Future developments

The directors anticipate continued difficult trading environment into 2020, and thus are expecting only a limited increase in sales in the year in relation to like for like sales. The re-organisation of the manufacturing processes and the continuous improvement programmes are expected to improve efficiency going forward.

## Financial risk management

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

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

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

### Liquidity risk

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

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

### Foreign currency cash flow risk

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

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

# Directors' report (Continued)

### Foreign Current cash flow risk (continued)

entered into on the basis of regularly updated forecast information on the level of trading in each denominated currency.

### Credit risk

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

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

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

## Research and development

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

## Employees

The company is committed to the principle of equal opportunity in employment. Our employment policies for recruitment, selection, training, development and promotion of employees are designed to ensure no application receives less favourable treatment on the grounds of age, race, nationality, religion, political beliefs, disability, sex or marital status.

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the company continues and that appropriate training is arranged. It is the policy of the company that training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

Consultation with employees or their representatives has continued at all levels, with the aim of ensuring that their views are taken into account when decisions are made that are likely to affect their interests and that all employees are made aware of the financial and economic performance of their business units and of the company as a whole.

## Employee involvement

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

# Directors' report (Continued)

## Going concern

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

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

The directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook. 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, the directors continue to adopt the going concern basis in preparing the annual report and financial statements.

## Directors' indemnity provisions

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

## Auditors

In accordance with section 485 of the Companies Act 2006, a resolution is to be proposed at the Annual General Meeting for reappointment of Ernst & Young LLP as auditor of the company.

## Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the Company's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

On behalf of the Board

G Evans
Director
26 September 2019

# Directors' Responsibilities Statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with FRS 102 (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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.

# Independent auditors' report

**To the members of Eaton MEDC Limited**

## Opinion

We have audited the financial statements of Eaton MEDC Limited for the year ended 31 December 2018 which comprise the Income statement, the Statement of comprehensive income, the Statement of changes in equity, the Statement of financial position and the related notes 1 to 25, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

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

## Basis for opinion

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

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

## Conclusions relating to going concern

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

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

## Other information

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

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

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

We have nothing to report in this regard.

# Independent auditors' report (Continued)

**To the members of Eaton MEDC Limited**

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

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

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

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

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

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

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

## Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

## Use of our report

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

Ernst & Young LLP

*Paul Copland (Senior statutory auditor)*
*for and on behalf of Ernst & Young LLP, Statutory Auditor*
*Glasgow*

*30th September 2019*

# Income statement
**for the year ended 31 December 2018**

| | Notes | *2018* £000 | *2017* £000 |
|---|---|---|---|
| ***Turnover*** | 3 | 48,416 | 36,560 |
| Cost of sales | | (32,273) | (20,814) |
| ***Gross Profit*** | | 16,143 | 15,746 |
| Distribution costs | | (3,233) | (1,978) |
| Administrative expenses | | (8,262) | (4,710) |
| Gain on disposal of intangible assets | 4 | - | 6,203 |
| ***Operating Profit*** | 4 | 4,648 | 15,261 |
| Interest receivable and similar income | 8 | 37 | 6 |
| Interest payable and similar costs | 9 | (865) | (983) |
| ***Profit on ordinary activities before taxation*** | | 3,820 | 14,284 |
| Tax on profit on ordinary activities | 10 | 1,355 | (2,120) |
| ***Profit for the financial year*** | | 5,175 | 12,164 |

All amounts relate to continuing operations

# Statement of comprehensive income

**for the year ended 31 December 2018**

| | Notes | 2018<br>£000 | 2017<br>£000 |
|---|---|---|---|
| Profit for the financial year | | 5,175 | 12,164 |
| ***Total Comprehensive income of the year*** | | 5,175 | 12,164 |

# Statement of changes in equity

**for the year ended 31 December 2018**

| | *Called up share capital* | *Profit and loss account* | *Total equity* |
|---|---|---|---|
| | *£000* | *£000* | *£000* |
| At 1 January 2017 | 73 | 44,246 | 44,319 |
| Profit for the year | - | 12,164 | 12,164 |
| Other comprehensive results | - | - | - |
| Total comprehensive income for the year | - | 12,164 | 12,164 |
| Group reorganisation: | | | |
| Profit on forgiveness of intercompany loans | - | 19,800 | 19,800 |
| Provision against investments in group undertakings | - | (26,952) | (26,952) |
| At 31 December 2017 | 73 | 49,258 | 49,331 |
| Profit for the year | - | 5,175 | 5,175 |
| Other comprehensive results | - | - | - |
| Total comprehensive income for the year | - | 5,175 | 5,175 |
| At 31 December 2018 | 73 | 54,433 | 54,506 |

# Statement of financial position

**at 31 December 2018**

| | Notes | 2018<br>£000 | 2017<br>£000 |
|---|---|---|---|
| ***Fixed assets*** | | | |
| Tangible fixed assets | 11 | 10,574 | 10,425 |
| Investments | 12 | 2 | 2 |
| | | 10,576 | 10,427 |
| ***Current assets*** | | | |
| Stocks | 13 | 5,495 | 5,228 |
| Debtors: amounts falling due within one year | 14 | 79,344 | 83,816 |
| Cash at bank and in hand | | 16 | 196 |
| | | 84,855 | 89,240 |
| ***Creditors***: amounts falling due within one year | 15 | (40,776) | (50,037) |
| ***Net current assets*** | | 44,079 | 39,203 |
| ***Total assets less current liabilities*** | | 54,655 | 49,630 |
| ***Provisions for liabilities*** | 16 | (149) | (299) |
| ***Net assets*** | | 54,506 | 49,331 |
| ***Capital and reserves*** | | | |
| Called up share capital | 17 | 73 | 73 |
| Profit and loss account | 18 | 54,433 | 49,258 |
| | | 54,506 | 49,331 |

The financial statements were approved and authorised for issue by the board and were signed on its behalf by:

G Evans
Director
26 September 2019

# Notes to the financial statements

**at 31 December 2018**

## 1. Authorisation of financial statements and statement of compliance

Eaton MEDC Limited is a limited liability company incorporated and domiciled in England and Wales. These financial statements were prepared in accordance with Financial Reporting Standard 102 (FRS 102). The financial statements are prepared under the historical cost convention, unless otherwise indicated in the significant accounting policies below, and are presented in Sterling.

The financial statements of Eaton MEDC Limited for the year ended 31 December 2018 were authorised for issue by the board of directors on 26 September 2019 and the statement of financial position was signed on the board's behalf by G Evans.

## 2. Accounting policies

### 2.1 Basis of preparation

Eaton MEDC Limited has taken advantage of the exemption available under section 400 of the Companies Act 2006 from the requirement to prepare group financial statements as it is a wholly owned subsidiary of Eaton Corporation plc, which prepares publicly available group financial statements which include the results of the Company and its subsidiaries. Eaton MEDC Limited financial statements therefore purely reflect the Company as an individual undertaking.

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

Eaton MEDC Limited has taken advantage of the following disclosure exemptions under FRS 102:

(a) the requirements of section 4 Statement of Financial Position- Paragraph 4.12 (a) (iv)

(b) the requirements of section 7 Statement of Cash Flows and Section 3 Financial Statement Presentation paragraph 3.17(d)

(c) the requirements of Basic Financial Instruments paragraphs 11.39 to 11.48A and section 12 Other Financial Instruments Issues paragraphs 12.26 to 12.29

(d) the requirements of Section 26 Share based Payment: paragraph 26.18 (b), 26.19 to 26.21 and 26.23

(e) Requirements of Section 33 Related Party Disclosures, paragraph 33.7

### 2.2 Judgements and key sources of estimation uncertainty

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

The following judgments have the most significant effect on amounts recognised in the financial statements.

***Taxation***

Management estimation is required to determine the amount of deferred tax assets that can be recognised based upon likely timing and level of future taxable profits together with assessment of the effect of future tax planning strategies.

***Warranties***

The warranty provision represents management's best estimate of the company's liability under warranties granted on products sold, based on past experience and industry averages for defective products. It is anticipated that most of these costs will be incurred in the next five years

# Notes to the financial statements (cont.)

**at 31 December 2018**

## 2.2 Judgements and key sources of estimation uncertainty (cont.)

***Impairment of non-financial assets (cont.)***

The company assesses at each reporting date whether an asset may be impaired. If any such indication exists, the company estimates recoverable amount of the asset. If it is not possible to estimate the recoverable amount of the individual asset, the company estimates, the recoverable amount of the cash- generating unit to which the asset belongs. The recoverable amount of an asset or cash-generating unit is the higher of its fair value less costs to sell and its value in use. If the recoverable amount is less than its carrying amount, the carrying amount of the asset is impaired and it is reduced to its recoverable amount through an impairment in profit and loss unless the asset is carried at a revalued amount where the impairment loss of a revalued asset is a revaluation decrease.

An impairment loss recognised for all assets, including goodwill, is reversed in a subsequent period if and only if the reasons for the impairment loss have ceased to apply.

## 2.3 Significant accounting policies

(a) Revenue recognition

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

Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on dispatch of the goods, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

Revenue from the rendering of services is recognised by reference to the stage of completion. Stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours for each contract. Where the contract outcome cannot be measured reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Interest income

Revenue is recognised as interest accrues using the effective interest method.

Dividends

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

(b) Research and development costs

Building and equipment acquired for research and development are included in fixed assets. Equipment is written off in accordance with the company's depreciation policy. Other research and development expenditure is written off in the year which it is incurred.

# Notes to the financial statements (cont.)

**at 31 December 2018**

## 2.3 Significant accounting policies (continued)

(c) Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Cost comprises the aggregate amount paid and the fair value of any other consideration given to acquire the asset and includes costs directly attributable to making the asset capable of operating as intended.

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset on a systematic basis over its expected useful life, as follows on a straight-line basis:

| | | |
|---|---|---|
| Freehold buildings | – | over 30 years |
| Leasehold improvements | – | over the lease term |
| Plant and machinery | – | over 10 years |
| Fixtures, fittings, tools and equipment | – | over 3 to 10 years |

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable and are written down immediately to their recoverable amount. Useful lives and residual values are reviewed annually and where adjustments are required these are made prospectively.

(d) Investments

Shares in group undertakings

These comprise investments in subsidiaries, associates and jointly controlled entities, and are recognised at cost less impairment.

(e) Provision for liabilities

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

Provisions for warranty costs are recognised at the date of sale of the relevant products, at the directors' best estimate of the expenditure required to settle the company's liability. In addition, if an issue was identified such that the product range needed to be recalled or reworked in some way, the anticipated costs of the total campaign were provided as soon as they could be readily ascertained.

(f) Stock and work in progress

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

Raw materials: purchase cost on a first-in, first-out basis

Work in progress and finished goods: cost of direct materials and labour plus attributable overheads based on a first-in, first-out basis on a normal level of activity.

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

# Notes to the financial statements (cont.)

**at 31 December 2018**

## 2.3 Significant accounting policies (continued)

(g) Leasing and hire purchase

Rentals payable under operating leases are charged in the income statement on a straight-line basis over the lease term. Lease incentives are recognised over the lease term on a straight-line basis.

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

(h) Deferred tax

Deferred tax is recognised in respect of all timing differences which are differences between taxable profits and total comprehensive income that arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements, except that unrelieved tax losses and other deferred tax assets are recognised only to the extent that the directors consider that it probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

(i) Pensions commitments

*Defined contribution scheme*

Contributions to defined contribution schemes are recognised in the income statement in the period in which they become payable.

(j) Going concern

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

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

The directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook. 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, the directors continue to adopt the going concern basis in preparing the annual report and financial statements.

(k) Foreign currency

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

# Notes to the financial statements (cont.)

**at 31 December 2018**

(l) Merger accounting

Group reorganisations where the ultimate equity holders remain the same, and the rights of each equity holder, relative to the others, are unchanged; and no non-controlling interest in the net assets of the group is altered by the transfer, are accounted for using merger accounting. The carrying values of the assets and liabilities of the parties to the combination are not adjusted to fair value. The difference, if any, between the book value of the assets and liabilities and the consideration shall be shown as a movement in reserves. These movements shall be shown in the statement of changes in equity.

## 3. Turnover

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

Turnover is attributable to continuing activities in the UK.

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

## 4. Operating Profit

This is stated after charging/(crediting):

| | *2018* | *2017* |
|---|---|---|
| | *£000* | *£000* |
| Research and development expenditure expensed | 833 | 489 |
| Depreciation of owned assets (see note 12) | 1,011 | 746 |
| Gain on sale of intellectual property not previously capitalised (see below) | - | 6,203 |
| Foreign exchange differences | 37 | 64 |
| Operating lease rentals | 201 | 140 |
| Provision for warranty claims | 138 | 172 |
| Auditors' remuneration (see note 5) | 54 | 28 |

Eaton Corporation undertook an internal IP restructuring that was initiated during the year ended 31 December 2017. As part of the project, Eaton MEDC Limited and Eaton Intelligent Power Limited entered into intercompany IP transfer agreements. The subject of the transfer included manufacturing process IP, technology IP, and related know how. This was not recorded as an asset historically on the balance sheet of Eaton MEDC Limited because it was internally generated.

The gain on the transfer of IP has been recorded through the income statement during the year ended 31 December 2017. The gain was calculated using the relief from royalty method which is an acceptable method to assess an arm's length charge in accordance with UK accounting standards.

## 5. Auditor's remuneration

The Company paid the following amounts to its auditors in respect of the audit of the financial statements and for other services provided to the Company.

| | *2018* | *2017* |
|---|---|---|
| | *£000* | *£000* |
| Audit of the financial statements | 54 | 28 |

# Notes to the financial statements (cont.)

**at 31 December 2018**

## 6. Staff costs

(a) Staff costs

Staff costs, including directors' remuneration, were as follows

| | *2018* | *2017* |
|---|---|---|
| | *£000* | *£000* |
| Wages and salaries | 10,253 | 7,964 |
| Social security costs | 1,036 | 779 |
| Other pension costs (see note 21) defined contribution schemes | 801 | 590 |
| | 12,090 | 9,333 |

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

| | *2018* | *2017* |
|---|---|---|
| | *No.* | *No.* |
| Manufacturing | 202 | 154 |
| Distribution | 49 | 34 |
| Administration | 47 | 35 |
| | 298 | 223 |

## 7. Directors remuneration

| | *2018* | *2017* |
|---|---|---|
| | *£000* | *£000* |
| Remuneration | 519 | 410 |
| Contributions to money purchase pension schemes | 77 | 34 |
| | 596 | 444 |

| | *2018* | *2017* |
|---|---|---|
| | *No* | *No* |
| Number of directors who received shares in respect of qualifying services | 1 | 1 |
| Number of directors who exercised share options | 1 | 1 |
| Number of directors who accrued benefits under a money purchase pension scheme | 5 | 3 |

The directors remunerated by Eaton MEDC Limited performs qualifying services for this company only and not for other companies in the Eaton group.

# Notes to the financial statements (cont.)

**at 31 December 2018**

## 8. Interest receivable and similar income

| | *2018* | *2017* |
|---|---|---|
| | *£000* | *£000* |
| On loans and balances due from fellow group undertakings | 37 | 6 |
| | 37 | 6 |

## 9. Interest payable and similar costs

| | *2018* | *2017* |
|---|---|---|
| | *£000* | *£000* |
| On balances due to fellow group undertakings | 865 | 983 |
| | 865 | 983 |

## 10. Taxation

(a) Tax on profit on ordinary activities

The tax charge is made up as follows:

| | *2018* | *2017* |
|---|---|---|
| | *£000* | *£000* |
| ***Current tax:*** | | |
| UK corporation tax at 19% (2017: 19.25%) | - | (2,824) |
| Overseas taxation | - | - |
| Adjustments in respect of prior years | 1,835 | - |
| | 1,835 | (2,824) |
| ***Deferred tax:*** | | |
| Origination and reversal of temporary differences | (10) | 88 |
| Adjustment in respect of prior year | (470) | 616 |
| Total change in the deferred tax | (480) | 704 |
| Tax on profit on ordinary activities | 1,355 | (2,120) |

# Notes to the financial statements (cont.)

**at 31 December 2018**

## 10. Taxation (continued)

(b) Factors affecting the total tax charge

The tax assessed on the profit on ordinary activities for the year is higher/lower than the standard rate of corporation tax in the UK of 19% (2017 – 19.25%). The differences are reconciled below:

| | *2018* | *2017* |
|---|---|---|
| | *£000* | *£000* |
| Profit on ordinary activities before tax | 3,820 | 14,284 |
| Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2017 – 19.25%) | 726 | 2,750 |
| Expenses not deductible for tax purposes (including goodwill amortisation) | 5 | 5 |
| Share options | - | (30) |
| Depreciation in excess of capital allowances | (32) | - |
| Group relief and other tax relief | (689) | - |
| Changes in tax rates | - | 11 |
| Adjustments with respect to prior years | (1,365) | (616) |
| Total tax (credit)/expense | (1,355) | 2,120 |

(c) Factors that may affect future tax charges

The Finance Act 2016, included legislation that will reduce the main rate of corporation tax to 17%, effective from 1 April 2020.

(d) Deferred tax

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

| | *2018* | *2017* |
|---|---|---|
| | *£000* | *£000* |
| Included in debtors (note 14) | 295 | 775 |
| Decelerated capital allowances | 285 | 369 |
| Losses | - | 338 |
| Other | 10 | 68 |
| | 295 | 775 |

| | |
|---|---|
| At 1 January 2018 | 775 |
| Deferred tax charge in profit and loss account | (480) |
| At 31 December 2018 | 295 |

The deferred tax balances as at 31 December 2018 have been restated at a rate of 17% as this is the rate at which deferred tax is expected to reverse.

# Notes to the financial statements (cont.)

**at 31 December 2018**

## 11. Tangible fixed assets

| | *Freehold Land and buildings* | *Short leasehold Land and buildings* | *Plant and machinery* | *Fixtures and fittings* | *Total* |
|---|---|---|---|---|---|
| | *£000* | *£000* | *£000* | *£000* | *£000* |
| Cost: | | | | | |
| At 1 January 2018 | 7,797 | - | 7,297 | 3,174 | 18,268 |
| Additions | 283 | - | 563 | 329 | 1,175 |
| Transfers | - | - | - | 2 | 2 |
| Disposals | - | - | (307) | (283) | (590) |
| At 31 December 2018 | 8,080 | - | 7,553 | 3,222 | 18,855 |
| Depreciation and impairment: | | | | | |
| At 1 January 2018 | 1526 | - | 4,322 | 1,995 | 7,843 |
| Provided during the year | 226 | - | 513 | 272 | 1,011 |
| Transfers | - | - | - | 1 | 1 |
| Disposals | - | - | (295) | (279) | (574) |
| At 31 December 2018 | 1,752 | - | 4,540 | 1,989 | 8,281 |
| Carrying amount | | | | | |
| At 31 December 2018 | 6,328 | - | 3,013 | 1,233 | 10,574 |
| At 31 December 2017 | 6,271 | - | 2,975 | 1,179 | 10,425 |

Depreciation charge for the year is £1,011,000 (2017 - £669,000).

The value of freehold land included in land and buildings amounted to £1,252,000 (2017 - £1,252,000)

## 12. Investments

| | *Investments in subsidiary undertakings* | *Other investments* | *Total* |
|---|---|---|---|
| | *£000* | *£000* | *£000* |
| Cost: | | | |
| At 1 January 2018 | 60,635 | 2 | 60,637 |
| Additions | - | - | - |
| At 31 December 2018 | 60,635 | 2 | 60,637 |
| Provisions: | | | |
| At 1 January 2018 | 60,635 | - | 60,635 |
| Provided in the year | - | - | - |
| At 31 December 2018 | 60,635 | - | 60,635 |
| Net book value: | | | |
| At 31 December 2018 | - | 2 | 2 |
| At 31 December 2017 | - | 2 | 2 |

# Notes to the financial statements (cont.)

**at 31 December 2018**

## 12. Investments (continued)

***Details of subsidiary and associated undertaking:***

| | *Country of incorporation* | *Nature of business* | *Proportion of ordinary shares held* |
|---|---|---|---|
| Cooper Crouse-Hinds (UK) Limited | England | Manufacturing | 100.0% |
| ADF Systemes SARL | France | Distributor | 22.0% |

The company holds 22% of the ordinary issued share capital of ADF Systemes SARL, a company incorporated in France. During the year ended 30 September 2018, ADF Systemes SARL made a profit after tax of £53,000 and at the end of the year the aggregate of its share capital and reserves was £1,298,000.

The principal activity of the company during the year was the wholesaling of electrical equipment for hazardous areas. ADF Systemes SARL is not accounted for as an associate as Eaton MEDC Limited does not have significant influence over its operating and financial policies.

Cooper Crouse-Hinds (UK) Limited is registered at Dorset Road, Sheerness, ME12 1LP, United Kingdom.
ADF Systemes SARL is registered at 82, Avenue Raymond Aron, 91300 Massy, France.

## 13. Stocks

| | *2018* *£000* | *2017* *£000* |
|---|---|---|
| Raw materials and consumables | 2,388 | 2,319 |
| Work in progress | 1,093 | 1,174 |
| Finished goods and goods for resale | 2,014 | 1,735 |
| | 5,495 | 5,228 |

The difference between purchase price or production cost of stocks and their replacement cost is not material.

Stocks recognised as an expense in the period were £32,273,000 (2017 – £20,814,000).

# Notes to the financial statements (cont.)

**at 31 December 2018**

## 14. Debtors: amounts falling due within 1 year

| | *2018* | *2017* |
|---|---|---|
| | *£000* | *£000* |
| Trade and other receivables | 5,540 | 5,080 |
| Prepayments and accrued income | 37 | 37 |
| Amounts owed by group undertakings | 72,667 | 76,825 |
| Taxation and social security | 728 | 781 |
| Other debtors | 77 | 318 |
| Deferred tax asset (note 10) | 295 | 775 |
| | 79,344 | 83,816 |

Amounts owed by group undertakings include £61,526,000 (2017: £54,844,000) of non-trade balance that is unsecured, have no fixed date of repayment and are repayable on demand. Interest received at 0.25% was £154,000 (2017: £8,000).

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

| | *2018* | *2017* |
|---|---|---|
| | *£000* | *£000* |
| Trade creditors | 3,088 | 2,491 |
| Amounts owed to group undertakings | 34,450 | 42,370 |
| Corporation tax | 1,191 | 2,866 |
| Taxation and social security | 294 | 220 |
| Other creditors | 104 | 427 |
| Accruals and deferred income | 1,649 | 1,663 |
| | 40,776 | 50,037 |

Amounts owed to group undertakings include a loan of £15,750,000 (2017: £15,750,000), repayable on 29 July 2019 and carrying interest at 5.13%.

## 16. Provisions for liabilities

| | *Warranty provision* |
|---|---|
| | *£000* |
| At 1 January 2018 | 299 |
| Additions during the year | 8 |
| Amounts charged against the provision | (158) |
| At 31 December 2018 | 149 |

The warranty provision represents management's best estimate of the company's liability under warranties granted on products sold, based on past experience and industry averages for defective products. It is anticipated that most of these costs will be incurred in the next five years.

# Notes to the financial statements (cont.)

**at 31 December 2018**

## 17. Allotted and issued share capital

| | 2018 | 2017 |
|---|---|---|
| | £000 | £000 |
| Allotted, issued and fully paid | | |
| 72,785 (2017 – 72,785) ordinary shares of £1 each | 73 | 73 |

## 18. Reserves

| | Called up share capital | Profit and loss account | Total equity |
|---|---|---|---|
| | £000 | £000 | £000 |
| At 1 January 2017 | 73 | 44,246 | 44,319 |
| Profit for the year | - | 12,164 | 12,164 |
| Other comprehensive results | - | - | - |
| Total comprehensive income for the year | - | 12,164 | 12,164 |
| Group reorganisation | | | |
| Profit on forgiveness of intercompany loans | - | 19,800 | 19,800 |
| Provision against investments in group undertakings | - | (26,952) | (26,952) |
| At 31 December 2017 | 73 | 49,258 | 49,331 |
| Profit for the year | - | 5,175 | 5,175 |
| Other comprehensive results | - | - | - |
| Total comprehensive income for the year | - | 5,175 | 5,175 |
| At 31 December 2018 | 73 | 54,433 | 54,506 |

## 19. Related party disclosures

During the year the Company entered into transactions, in the ordinary course of business, with other related parties. The company has taken advantage of the exemption in Section 33.1A, whereby disclosures need not be given of transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

During the year the company earned revenue of £528,000 (2017: £454,000) from sales to ADF Systemes SARL. The company owns 22% of ADF Systemes SARL. As at 31 December 2018 ADF Systemes SARL owed the company £142,000 (2017: £116,000).

**Terms and conditions of transactions with related parties**

Sales and purchases between related parties are made on an arm's length basis. Outstanding balances with entities other than subsidiaries are unsecured, interest free and cash settlement is expected within 90 days of invoice. The Company has not provided or benefited from any guarantees for any related party receivables or payables. During the year ended 31 December 2018, the Company has not made any provision for doubtful debts relating to amounts owed by related parties (2017 – nil).

# Notes to the financial statements (cont.)

**at 31 December 2018**

## 20. Pensions

The pension charge for the year ended 31 December 2018 was £801,000 (2017: £590,000) in respect of the defined contribution scheme. Outstanding contributions included in other creditors amounted to £nil (2017: £nil).

## 21. Operating lease commitments

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

| | *Other 2018 £000* | *Other 2017 £000* |
|---|---|---|
| Not later than one year | 106 | 117 |
| After one year but not more than five years | 173 | 320 |
| After five years | - | - |
| | 279 | 437 |

## 22. Capital commitments

There were no amounts authorised and contracted for but not provided in the financial statements for the company (2017 – £nil).

## 23. Contingent liabilities

There were no contingent liabilities as at the balance sheet date.

## 24. Ultimate parent undertaking and controlling party

The company's immediate parent undertaking is Eaton Industries (UK) Limited, a company registered in England and Wales.

The company's ultimate parent undertaking and controlling party is Eaton Corporation plc which is incorporated in Ireland. The only group of which the company is a member and for which group financial statements are prepared is that headed by Eaton Corporation plc. Copies of the 2017 Annual Report of Eaton Corporation plc can be obtained from the following address:

Eaton Center, 1000 Eaton Boulevard, Cleveland, Ohio 44122, USA

## 25. Events after the reporting period

The directors are not aware of any events after the reporting period.