Komatsu UK Limited

Annual report and financial statements

Registered number 01948743

31 March 2018

Contents

Strategic report

The directors present their strategic report for the year ended 31 March 2018.

Principal activities

The principal activity of the Company during the year was the manufacture and sale of hydraulic excavators.

Business model

Most of the Company's sales comprise hydraulic excavators manufactured under licence from Komatsu Ltd, the Company's ultimate parent. Komatsu Ltd undertakes significant research and development activity in order to design construction equipment offering competitive advantages in terms of functionality, quality and ownership costs.

Sales are primarily made to the European market through a network of distributors organised by Komatsu Europe International NV, the Company's immediate parent. The Company operates as a "limited risk contract manufacturer" and manufactures for, and sells exclusively to, Komatsu Europe International NV ("KEISA"), at pricing set to generate a return on cost.

Business review

Performance

The results for the year are set out on page 8. The company profit before taxation was £4,035,000 *(2017: £3,165,000)* and reflects a return in line with the contract manufacturing relationship with KEISA.

Turnover for the year amounted to £191,091,000 *(2017: £147,375,000)*. The increase primarily reflects improving sales volumes, which arose as a result of improving demand in the European market and some product and distribution improvements which helped improve the company's market share.

The balance sheet as at March 2018 indicates that the financial position of the company remains strong, with net assets of £75,172,000 *(2017: £67,511,000)*.

Future Developments

The Company will continue to operate as a contract manufacturer and will work with KEISA to improve sales volumes. In addition to a focus on improving the measures referred to below, the Company will work with KEISA to ensure the product offering continues to meet the demands of European customers.

Measurement

The Company undertakes comprehensive business planning to define long term strategic objectives and goals. Annual budgets and operational plans are prepared utilising financial and non-financial Key Performance Indicators ("KPI's"). These KPI's include measures related to health and safety, product quality, delivery performance, sales plan achievement, product cost, productivity and financial performance. As far as financial performance is concerned the key measures used by the company are turnover and underlying operating profit (excluding the impact of the year end contract manufacture adjustment), together with measures which consider the consolidated margin achieved by the Company and KEISA on the machines manufactured by the Company.

Strategic report *(continued)*

Business review *(continued)*

Principal risks and uncertainties

The directors constantly monitor the risks and uncertainties facing the Company and there are suitable policies in place to manage risks. The directors assess the key risks facing the business as follows:

- Volatility in European demand for crawler excavators

The experience of recent years highlights the possible volatilities in demand. To mitigate this risk, tight control of overhead costs and diversification of product range are the key strategies adopted.

- Exposure to Euro, US Dollar and Japanese Yen exchange rate volatility in both income and expenditure

Hedging mechanisms and exchange rate impact sharing agreements with business partners are utilised to provide a degree of stability where practical.

Under the limited risk contract manufacturer model, the Company does not face these risks directly (due to the "cost plus" based transfer pricing) but seeks to manage these risks on behalf of its immediate parent undertaking.

By order of the board

Peter Howe

P Howe
Director

Durham Road
Birtley
Chester-le-Street
Co Durham
DH3 2QX

24 July 2018

Directors' report

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

Financial instruments

In the opinion of the directors there are no specific issues in respect of price, credit, liquidity or cash flow risk that would need to be set out herein in order to provide an enhanced understanding of the results of the Company.

The financial risk management policy in respect of foreign currency exposure is referred to in the Strategic report. The Company arranges a system of quarterly hedges, based on forecast transactions for the subsequent quarter, using a combination of forward exchange contracts and currency options. The forward foreign exchange contracts in place at the year end to cover the April 18 to June 18 quarter's transactions are detailed in note 21.

Proposed dividend

Dividends paid during the year comprise a final dividend of £754,000 in respect of the previous year ended 31 March 2017 *(2017: a final dividend of £450,000 in respect of the year ended 31 March 2016).*

The directors have proposed a final ordinary dividend in respect of the current financial year of £973,000. This has not been included within creditors as it was not approved before the year end.

Directors

The directors who held office during the year, and changes since the year end, were as follows:

P Howe	
S Reid	
P Blanchard	
K Yanagisawa	(resigned 1 April 2017)
R Williams	
H Tsuji	
M Morishita	
N Okamoto	(appointed 1 April 2017)
T Bowman	(appointed 1 April 2018)

Employees

Within the limits of commercial confidentiality, information is provided systematically to all staff about matters that affect the progress of the Company and are of interest and concern to them as employees.

The Company is generally active in its support of disabled persons through a variety of initiatives. Full and fair consideration is given in every respect when dealing with applications for employment and employees during their employment.

Political contributions

The company made no political donations nor incurred any political expenditure during the year *(2017: £nil).*

Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Directors' report *(continued)*

Other information

An indication of likely future developments in the business and particulars of significant events which have occurred since the end of the financial year have been included in the Strategic report on page 1.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the board

S Reid
Director

Durham Road
Birtley
Chester-le-Street
Co Durham
DH3 2QX

24 July 2018

Statement of directors' responsibilities in respect of the Strategic Report, the Directors' Report and the financial statements

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 they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland.*

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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 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, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

KPMG LLP
Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX
United Kingdom

Independent auditor's report to the members of Komatsu UK Limited

Opinion

We have audited the financial statements of Komatsu UK Limited ("the company") for the year ended 31 March 2018 which comprise the Profit and Loss Account and Other Comprehensive Income, Balance Sheet, Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; 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 are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Independent auditor's report to the members of Komatsu UK Limited *(continued)*

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required 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.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 5, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; 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; 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 they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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.

Nick Plumb

Nick Plumb (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX

27 July 2018

Profit and Loss Account and Other Comprehensive Income
for the year ended 31 March 2018

	Note	**2018** **£000**	2017 £000
Turnover	*2*	**191,091**	147,375
Net operating expenses	*3*	**(186,858)**	(145,893)
Operating profit		**4,233**	1,482
Interest receivable and similar income	*8*	**371**	1,764
Interest payable and similar expenses	*9*	**(569)**	(81)
Profit before taxation	*3-7*	**4,035**	3,165
Tax on profit	*10*	**(792)**	(653)
Profit for the financial year	*20*	**3,243**	2,512
Other comprehensive income			
Remeasurement of the net defined benefit asset	*18*	**6,210**	(6,005)
Income tax on other comprehensive income	*10*	**(1,038)**	1,260
Other comprehensive income for the year, net of income tax		**5,172**	(4,745)
Total comprehensive income for the year		**8,415**	(2,233)

Balance Sheet
at 31 March 2018

	Note	2018		2017	
		£000	**£000**	£000	£000
Fixed assets					
Tangible assets	*12*		**10,210**		9,279
Current assets					
Stocks	*13*	**75,532**		68,043	
Debtors	*14*	**31,050**		34,144	
Cash at bank and in hand		**716**		768	
		107,298		102,955	
Creditors: amounts falling due within one year	*15*	**(54,564)**		(50,879)	
Net current assets			**52,734**		52,076
Total assets less current liabilities			**62,944**		61,355
Provisions for liabilities					
Deferred tax liability	*16*	**(3,507)**		(2,362)	
Other provisions	*17*	**(3,938)**		(4,377)	
Pensions and similar obligations	*18*	**(3,060)**		(3,046)	
			(10,505)		(9,785)
Pension assets	*18*		**22,733**		15,941
Net assets			**75,172**		67,511
Capital and reserves					
Called up share capital	*19*		**23,810**		23,810
Profit and loss account	*20*		**51,362**		43,701
Shareholders' funds			**75,172**		67,511

These financial statements were approved by the board of directors on 24 July 2018 and were signed on its behalf by:

Peter Howe

P Howe
Director

S Reid
Director

Company registered number: 01948743

Statement of Changes in Equity

	Called up share capital £000	Profit and loss account £000	Total equity £000
Balance at 1 April 2016	23,810	46,384	70,194
Total comprehensive income for the year			
Profit or loss	-	2,512	2,512
Other comprehensive income	-	(4,745)	(4,745)
Total comprehensive income for the year	-	(2,233)	(2,233)
Transactions with owners, recovered directly in equity			
Dividends	-	(450)	(450)
Total contributions being and distributed for owners	-	(450)	(450)
Balance at 31 March 2017	23,810	43,701	67,511
Balance at 1 April 2017	**23,810**	**43,701**	**67,511**
Total comprehensive income for the year			
Profit or loss	-	3,243	3,243
Other comprehensive income	-	5,172	5,172
Total comprehensive income for the year	-	8,415	8,415
Transactions with owners, recorded directly in equity			
Dividends	-	(754)	(754)
Total contributions by and distributions to owners	-	(754)	(754)
Balance at 31 March 2018	23,810	51,362	75,172

Notes
(forming part of the financial statements)

1 Accounting policies

Komatsu UK Limited (the "Company") is a private company incorporated, domiciled and registered in England in the UK. The registered number is 01948743 and the registered address is Durham Road, Birtley, Chester-le-Street, Co Durham, United Kingdom, DH3 2QX.

These financial statements were prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland (*"FRS 102"*). The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

The Company's ultimate parent undertaking, Komatsu Ltd, includes the Company in its consolidated financial statements. The consolidated financial statements of Komatsu Ltd are available to the public and may be obtained from the address provided in note 25. In these financial statements, the Company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Reconciliation of the number of shares outstanding from the beginning to end of the period;
- Cash Flow Statement and related notes; and
- Key Management Personnel compensation.

As the consolidated financial statements of Komatsu Ltd include the disclosures equivalent to those required by FRS 102, the Company has also taken the exemption available in respect of the following disclosures:

- Certain disclosures required by FRS 102.11 *Basic Financial Instruments* and FRS 102.12 *Other Financial Instrument Issues* in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

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

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 26.

Measurement convention

The financial statements are prepared on the historical cost basis except that derivative financial instruments are stated at their fair value through profit or loss.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. The Company meets its day to day working capital requirements through a European group banking facility provided by Komatsu Europe Coordination Center NV ("KECC").

The current economic conditions create an element of uncertainty over demand for the Company's products and services. The Company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Company is expected to have a sufficient level of financial resources available through current facilities and therefore the directors believe that the Company is well placed to manage its business risks successfully.

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 prepare the financial statements on a going concern basis.

Notes *(continued)*

1 Accounting policies *(continued)*

Foreign currency

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. 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. Foreign exchange differences arising on translation are recognised in the profit and loss account.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the profit and loss account within 'finance (expense)/income'. All other foreign exchange gains and losses are presented in the profit and loss account within 'Net operating expenses'.

Classification of financial instruments issued by the Company

In accordance with FRS 102.22, financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and

(b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Basic financial instruments

Trade and other debtors / creditors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of interest for a similar debt instrument.

Interest-bearing borrowings classified as basic financial instruments

Interest-bearing borrowings are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Notes *(continued)*

1 Accounting policies *(continued)*

Other financial instruments

Financial instruments not considered to be Basic financial instruments (Other financial instruments)

Other financial instruments not meeting the definition of Basic Financial Instruments are recognised initially at fair value. Subsequent to initial recognition other financial instruments are measured at fair value with changes recognised in profit or loss except as follows:

- investments in equity instruments that are not publicly traded and whose fair value cannot otherwise be measured reliably shall be measured at cost less impairment; and
- hedging instruments in a designated hedging relationship.

Derivative financial instruments and hedging

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets, for example land is treated separately from buildings.

Leases in which the Company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases. Leased assets acquired by way of finance lease are stated on initial recognition at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, including any incremental costs directly attributable to negotiating and arranging the lease. At initial recognition a finance lease liability is recognised equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. The present value of the minimum lease payments is calculated using the interest rate implicit in the lease. Lease payments are accounted for as described below.

The Company assesses at each reporting date whether tangible fixed assets (including those leased under a finance lease) are impaired.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives are as follows:

Freehold land and buildings	-	15 – 25 years
Plant and machinery	-	3 – 15 years
Fixtures and fittings	-	8 years

Assets under construction are not depreciated until construction is complete and the asset is reclassified into one of the above fixed asset categories.

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the Company expects to consume an asset's future economic benefits.

Notes *(continued)*

1 Accounting policies *(continued)*

Government grants

Government grants are included within accruals and deferred income in the balance sheet and credited to the profit and loss account over the expected useful lives of the assets to which they relate or in periods in which the related costs are incurred.

Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the stocks, production or conversion costs and other costs in bringing them to their existing location and condition. In the case of manufactured stocks and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

Impairment excluding stocks and deferred tax assets

Financial assets (including trade and other debtors)

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 amortised 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. For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Company would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. Impairment losses are recognised in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

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 or cash-generating unit 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. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU").

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss is reversed if and only if the reasons for the impairment have ceased to apply.

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 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.

Notes *(continued)*

1 Accounting policies *(continued)*

Employee benefits

Defined contribution plans and other long term employee benefits

A defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of any plan assets is deducted. The Company determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate as determined at the beginning of the annual period to the net defined benefit liability (asset) taking account of changes arising as a result of contributions and benefit payments.

The discount rate is the yield at the balance sheet date on AA credit rated bonds denominated in the currency of, and having maturity dates approximating to the terms of the Company's obligations. A valuation is performed annually by a qualified actuary using the projected unit credit method. The Company recognises net defined benefit plan assets to the extent that it is able to recover the surplus either through reduced contributions in the future or through refunds from the plan.

Changes in the net defined benefit liability arising from employee service rendered during the period, net interest on net defined benefit liability, and the cost of plan introductions, benefit changes, curtailments and settlements during the period are recognised in profit or loss.

Remeasurement of the net defined benefit liability/asset is recognised in other comprehensive income in the period in which it occurs.

Termination benefits

Termination benefits are recognised as an expense when the Company is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Company has made an offer of voluntary redundancy, it is probably that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

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 recognised at the best estimate of the amount required to settle the obligation at the reporting date.

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the company treats the guarantee contract as a contingent liability until such time as it becomes probable that the company will be required to make a payment under the guarantee.

Turnover

Turnover represents the amount receivable in the ordinary course of business from the provision of goods and services to customers. Turnover is measured at the fair value of the right to consideration net of sales related rebates, discounts and value added tax.

The Company recognises revenue at the point of dispatch of goods and for services when they have been provided.

Notes *(continued)*

1 Accounting policies *(continued)*

Expenses

Operating lease

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in profit and loss over the term of the lease as an integral part of the total lease expense.

Interest receivable and Interest payable

Interest payable and similar charges include interest payable, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the profit and loss account (see foreign currency accounting policy).

Other interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method. Foreign currency gains and losses are reported on a net basis.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which 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. Timing differences between accumulated depreciation and tax allowances for the cost of a fixed asset are not provided for if and when all conditions for retaining the tax allowances have been met. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is provided in respect of the additional tax that will be paid or avoided on differences between the amount at which an asset (other than goodwill) or liability is recognised in a business combination and the corresponding amount that can be deducted or assessed for tax.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that is it probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Notes *(continued)*

2 Turnover

The analysis of turnover by category is as follows

	2018 £000	2017 £000
Sale of goods	**190,610**	146,341
Rendering of services	**481**	1,034
	191,091	147,375

The analysis of turnover by geographical destination is as follows

	2018 £000	2017 £000
United Kingdom	**50,876**	43,625
Rest of Europe	**136,598**	99,161
Rest of World	**3,617**	4,589
	191,091	147,375

Turnover is measured at the fair value of the right to consideration net of sales related rebates, discounts and value added tax.

3 Net operating expenses

	2018 £000	2017 £000
Change in stocks of finished goods and work in progress	**(12,759)**	913
Other operating income (note 4)	**(5,253)**	(5,325)
Raw materials and consumables	**160,807**	108,231
Other external charges	**12,076**	10,085
Staff costs (note 6)	**22,407**	19,312
Depreciation of tangible fixed assets (note 12)	**1,989**	2,043
Other operating charges	**7,591**	10,634
	186,858	145,893

4 Other operating income

	2018 £000	2017 £000
Government grants	**193**	300
Net gain on disposal of tangible fixed assets	**3**	-
Income from supply of staff to other group companies	**2,682**	2,292
Income from design services	**1,996**	2,346
Other income	**379**	387
	5,253	5,325

Notes *(continued)*

5 Expenses and auditor's remuneration

Included in profit/loss are the following:

	2018	2017
	£000	£000
Impairment loss on inventories	**206**	295
Reversal of impairment loss on inventories	**(507)**	(1,480)
Operating lease charges	**249**	245
Depreciation	**1,989**	2,043
Net exchange losses	**146**	2,916

Auditor's remuneration:

	2018	2017
	£000	£000
Audit of these financial statements	**59**	57
Amounts receivable by the auditor and its associates in respect of:		
Other services pursuant to such legislation	**15**	18
All other services	**1**	1

6 Staff numbers and costs

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

	Number of employees	
	2018	2017
Production	**236**	187
Other factory staff	**12**	12
Administration and other staff	**148**	156
Staff supplied to other group companies	**28**	25
	424	380

The aggregate payroll costs of these persons were as follows:

	2018	2017
	£000	£000
Wages and salaries	**17,365**	15,252
Social security costs	**1,809**	1,525
Contributions to defined contribution plans (note 18)	**917**	848
Expenses related to defined benefit plans (note 18)	**2,316**	1,687
	22,407	19,312

Notes *(continued)*

7 Remuneration of directors

	2018 £000	2017 £000
Directors' emoluments	**946**	970

The emoluments of the highest paid director were £384,000 *(2017: £428,000)*. He is a member of a defined benefit scheme, under which his accrued pension at the year end was £162,000 *(2017: £152,000)*.

	Number of directors 2018	2017
Retirement benefits are accruing to the following number of directors under:		
Defined benefit schemes	**4**	4

8 Interest receivable and similar income

	2018 £000	2017 £000
Bank interest receivable and similar income	**1**	4
Net gain on derivative financial instruments designated as fair value through profit or loss (note 21)	**-**	1,085
Net interest income on net defined benefit plan assets (note 18)	**370**	675
	371	1,764

9 Interest payable and similar expenses

	2018 £000	2017 £000
Interest payable on loans from group undertakings	**148**	81
Net loss on derivative financial instruments designated as fair value through profit or loss (note 21)	**421**	-
	569	81

Notes *(continued)*

10 Taxation

Tax expense recognised in the profit and loss account

	2018		2017	
	£000	**£000**	£000	£000
UK corporation tax				
Current tax on income for the period	**648**		117	
Current tax deductions allocated to actuarial losses	**-**		352	
Adjustments in respect of prior periods	**37**		251	
Total current tax		**685**		720
Deferred tax (see note 16)				
Origination of timing differences	**93**		129	
Adjustments in respect of previous years	**6**		(186)	
Effect of reduction in tax rate	**8**		(10)	
Total deferred tax		**107**		(67)
Total tax expense recognised in the profit and loss account		**792**		653

Tax expense/(credit) recognised in other comprehensive income

	2018		2017	
	£000	**£000**	£000	£000
Current tax				
Current tax deductions allocated to actuarial losses		**-**		(352)
Total current tax		**-**		(352)
Deferred tax (see note 16)				
Origination and reversal of timing differences	**1,180**		(849)	
Impact of change in tax rate	**(142)**		(59)	
Total deferred tax		**1,038**		(908)
Total tax expense/(credit) recognised in other comprehensive income		**1,038**		(1,260)

Notes *(continued)*

10 Taxation *(continued)*

Reconciliation of effective tax rate

	2018 £000	2017 £000
Profit for the year	**3,243**	2,512
Total tax expense	**792**	653
Profit excluding taxation	**4,035**	3,165
Tax using the UK corporation tax rate of 19% *(2017: 20%)*	**767**	633
Reduction in tax rate on deferred tax balances	**8**	(10)
Non-deductible expenses	**15**	15
Income not taxable	**(41)**	(50)
Under provided in prior years	**43**	65
Total tax expense recognised in profit or loss	**792**	653

Factors that may affect future tax charges

A reduction in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015. An additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. The deferred tax liability at 31 March 2018 has been calculated based on these rates.

11 Dividends

The aggregate amount of dividends comprises:

	2018 £000	2017 £000
Final dividends paid in respect of prior year but not recognised as liabilities in that year	754	450
Interim dividends paid in respect of the current year	-	-
	754	450

The aggregate amount of dividends proposed and not recognised as liabilities as at the year end is £973,000 *(2017: £754,000).*

Notes *(continued)*

12 Tangible fixed assets

	Freehold land and buildings £000	Plant and machinery £000	Fixtures and fittings £000	Total £000
Cost				
Balance at 1 April 2017	21,561	41,309	469	63,339
Additions	1,062	1,766	92	2,920
Disposals	-	(23)	-	(23)
Balance at 31 March 2018	22,623	43,052	561	66,236
Depreciation				
Balance at 1 April 2017	17,148	36,510	402	54,060
Charge for year	674	1,282	33	1,989
On disposals	-	(23)	-	(23)
Balance at 31 March 2018	17,822	37,769	435	56,026
Net book value				
At 1 April 2017	4,413	4,799	67	9,279
At 31 March 2018	**4,801**	**5,283**	**126**	**10,210**

13 Stocks

	2018 £000	2017 £000
Raw materials and consumables	**34,794**	40,064
Work in progress	**21,182**	17,059
Finished goods and goods for resale	**19,556**	10,920
	75,532	68,043

Raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales in the year amounted to £148,048,000 *(2017: £109,144,000).*

Stock is stated after provisions for impairment of £1,855,000 *(2017: £3,276,000).*

Notes *(continued)*

14 Debtors

	2018 £000	2017 £000
Trade debtors	**166**	111
Amounts owed by group undertakings	**25,906**	23,552
Other debtors	**4,765**	9,858
Derivative financial instruments (note 21)	**87**	508
Prepayments and accrued income	**126**	115
	31,050	34,144
Due within one year	**31,050**	34,144
Due after more than one year	**-**	-
	31,050	34,144

Trade debtors is stated after provisions for impairment of £nil *(2017: £nil).*

Amounts owed by group undertakings are unsecured, interest free and are repayable on demand.

Other debtors include net VAT recoverable of £4,577,000 *(2017: £9,582,000).*

15 Creditors: amounts falling due within one year

	2018 £000	2017 £000
Trade creditors	**7,642**	9,366
Funding advances from group undertakings	**21,684**	14,112
Amounts owed to group undertakings	**14,648**	14,535
Corporation tax payable	**438**	337
Other taxation and social security	**562**	513
Accruals and deferred income	**9,590**	12,016
	54,564	50,879

Funding advances from group undertakings are unsecured, interest bearing and are repayable on demand. Amounts owed to group undertakings are unsecured, interest free and are repayable on demand.

Notes *(continued)*

16 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2018	2017	**2018**	2017	**2018**	2017
	£000	£000	**£000**	£000	**£000**	£000
Accelerated capital allowances	**-**	-	**(74)**	(69)	**(74)**	(69)
Employee benefits	**-**	-	**(3,344)**	(2,192)	**(3,344)**	(2,192)
Derivative financial instruments	**-**	-	**(89)**	(101)	**(89)**	(101)
Net tax assets/(liabilities)	**-**	-	**(3,507)**	(2,362)	**(3,507)**	(2,362)

Movement in deferred tax during the year

	1 April 2017 £000	**Recognised in profit and loss account £000**	**Recognised in other comprehensive income £000**	**31 March 2018 £000**
Accelerated capital allowances	(69)	(5)	-	(74)
Employee benefits	(2,192)	(114)	(1,038)	(3,344)
Derivative financial instruments	(101)	12	-	(89)
	(2,362)	(107)	(1,038)	(3,507)

Movement in deferred tax during the prior year

	1 April 2016 £000	**Recognised in profit and loss account £000**	**Recognised in other comprehensive income £000**	**31 March 2017 £000**
Accelerated capital allowances	(80)	11	-	(69)
Employee benefits	(3,133)	33	908	(2,192)
Derivative financial instruments	(124)	23	-	(101)
	(3,337)	67	908	(2,362)

Notes *(continued)*

17 Provisions

	Warranty provision £000	Other £000	Total £000
Balance at 1 April 2017	3,895	482	4,377
Utilised during year	(1,586)	(162)	(1,748)
Charge to the profit and loss account for the year	1,494	(185)	1,309
Balance at 31 March 2018	**3,803**	**135**	**3,938**

Warranty provision

Warranty cover is provided for periods of one to three years and is in respect of machine and component failure. The major uncertainty is the timing and extent of such failures.

Other provision

Other provisions relate to the cost of providing "Komtrax", a satellite tracking service which was offered free to customers prior to the change to contract manufacturer model. The cost includes a monthly fee for all machines which remain registered (up to a maximum limit of five years after initial registration). The major uncertainty is when each machine will cease to be registered.

18 Employee benefits

Defined contribution pension scheme

The Company operates a defined contribution pension scheme. The pension cost charge for the period represents contributions payable by the Company to the scheme and amounted to £917,000 *(2017: £848,000)*.

Contributions amounting to £nil *(2017: £nil)* were payable to the scheme at the year end.

Defined benefit pension scheme

The Company also operates a pension scheme, the Komatsu UK Staff Pension Scheme, providing benefits based on final pensionable pay. This scheme was closed to all new entrants after 30 September 2002 and thereafter a new defined contribution scheme (see above) is being offered to new employees who join the Company or wish to transfer from the existing defined benefits scheme.

With effect from 1 April 2015 changes were introduced to the Komatsu UK Staff Pension Scheme whereby future increases in pensionable salary will be limited to RPI inflation each year; benefits accrued from 1 April 2015 onwards will be at a rate of 1/70th of pensionable salary each year rather than 1/60th; benefits accrued from 1 April 2015 onwards will increase once in payment in line with RPI subject to an annual maximum of 2.5%; and the rate of contributions paid by active members will be increased from 7% to 10% of pensionable salaries.

The valuation used for FRS 102 disclosures has been based on the formal actuarial valuation as at 31 March 2017, and was updated for FRS 102 purposes to 31 March 2018 by a qualified independent actuary. The present values of the defined benefit obligation, the related current service cost and any past service costs were measured using the projected unit credit method.

Employer contributions in the accounting period amounted to £2,514,000 *(2017: £2,505,000)*. Basic contributions were paid at a rate of 26.3% *(2017: 26.3%)* of pensionable salaries and amounting to £1,397,000 *(2017: £1,391,000)*. Employer pensions paid through salary sacrifice amounted to £367,000 *(2017: £364,000)*. In addition, the Company made a special additional contribution of £750,000 *(2017: £750,000)*.

Notes *(continued)*

18 Employee benefits *(continued)*

The information disclosed below is in respect of the whole of the plans for which the Company is either legally responsible or has been allocated a share of cost under an agreed group policy throughout the periods shown.

Net pension asset

	2018 **£000**	2017 £000
Defined benefit obligation	**(133,858)**	(138,919)
Plan assets	**156,591**	154,860
Net pension asset	**22,733**	15,941

Movements in present value of defined benefit obligation:

	2018 **£000**	2017 £000
At 1 April	**(138,919)**	(103,923)
Current service cost	**(2,073)**	(1,498)
Interest expense	**(3,570)**	(3,708)
Remeasurement: actuarial gains/(losses)	**7,638**	(31,492)
Contributions by members	**(165)**	(166)
Benefits paid	**3,231**	1,868
At 31 March	**(133,858)**	(138,919)

Movements in fair value of plan assets:

	2018 **£000**	2017 £000
At 1 April	**154,860**	123,564
Interest income	**4,019**	4,463
Remeasurement: return on plan assets less interest income	**(1,736)**	26,030
Contributions by employer	**2,514**	2,505
Contributions by members	**165**	166
Benefits paid	**(3,231)**	(1,868)
At 31 March	**156,591**	154,860

(Expense)/income recognised in the profit and loss account:

	2018 **£000**	2017 £000
Current service cost	**(2,073)**	(1,498)
Net interest on net defined benefit asset	**449**	755
Total expense recognised in profit or loss	**(1,624)**	(743)

Notes *(continued)*

18 Employee benefits *(continued)*

The (expense)/income is recognised in the following line items in the profit and loss account:

	2018 £000	2017 £000
Net operating expenses - staff costs	**(2,073)**	(1,498)
Interest receivable and similar income	**449**	755
	(1,624)	(743)

Gains and losses recognised directly in equity:

	2018 £000	2017 £000
Remeasurement gains/(losses) recognised in the year	**5,902**	(5,462)

The fair value of the plan assets and the return on those assets were as follows:

	2018 Fair value £000	2017 Fair value £000
Equities	**14,028**	11,153
Government bonds	**78,106**	85,522
Corporate bonds	**54,929**	46,546
Property	**1,703**	2,358
Other	**7,825**	9,281
	156,591	154,860
Interest income	**4,019**	4,463
Remeasurement: return on plan assets less interest income	**(1,736)**	26,030
Actual return on plan assets	**2,283**	30,493

At 31 March 2018, none of the fair value of scheme assets related to self-investment.

Principal actuarial assumptions (expressed as weighted averages) at the year end were as follows:

	2018 %	2017 %
Discount rate	**2.7%**	2.6%
Rate of increase to pensions in payment	**3.1%**	3.3%
Rate of increase to pensions in deferment	**2.3%**	2.4%
Future salary increases	**3.3%**	3.4%
Inflation (RPI)	**3.3%**	3.4%
Inflation (CPI)	**2.3%**	2.4%

Notes *(continued)*

18 Employee benefits *(continued)*

In valuing the liabilities of the pension fund at 31 March 2018, mortality assumptions have been made as indicated below. If life expectancy had been changed to assume that all members of the fund lived for one year longer, the value of the reported liabilities at 31 March 2018 would have increased by £3.732 million.

Mortality assumptions

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are that a member currently aged 65 will live on average for a further 22.7 years if they are male and for a further 24.8 years if they are female. For a member currently aged 45, the assumptions are that they will live on average for a further 24.9 years after retirement at 65 if they are male and for a further 27.1 years after retirement at 65 if they are female.

The company expects to contribute approximately £2.6 million to its defined benefit plans in the next financial year.

Employer Financed Retirement Benefit Scheme (EFRBS)

During 2012 an employee opted out of the Komatsu UK Staff Pension Scheme, with future benefits being provided via an unfunded arrangement. Under this arrangement benefits will be provided in relation to future increases in salary that would have applied to past service had the employee remained in the Komatsu UK Staff Pension Scheme. The cost relating to this arrangement, included within operating profit, was £243,000 *(2017: £189,000).*

The present value of the unfunded defined benefit obligation is based on calculations carried out by a qualified independent actuary to take account of the requirements of FRS 102 in order to assess the liability at 31 March 2018.

Pension liability

	2018	2017
	£000	£000
Present value of unfunded defined benefit obligation	**(3,060)**	(3,046)

Movements in present value of the unfunded defined benefit obligation:

	2018	2017
	£000	£000
At 1 April	**(3,046)**	(2,234)
Current service cost	**(243)**	(189)
Interest expense	**(79)**	(80)
Remeasurement: actuarial gain/(losses)	**308**	(543)
At 31 March	**(3,060)**	(3,046)

Expense recognised in the profit and loss account:

	2018	2017
	£000	£000
Current service cost	**(243)**	(189)
Net interest on net defined benefit liability	**(79)**	(80)
Total expense recognised in profit or loss	**(322)**	(269)

Notes *(continued)*

18 Employee benefits *(continued)*

The expense is recognised in the following line items in the profit and loss account:

	2018 £000	2017 £000
Net operating expenses - staff costs	**(243)**	(189)
Interest receivable and similar income	**(79)**	(80)
	(322)	(269)

Gains and losses recognised directly in equity:

	2018 £000	2017 £000
Remeasurement gains/(losses) recognised in the year	**308**	(543)

Principal actuarial assumptions (expressed as weighted averages) at the year end were as follows:

	2018 %	2017 %
Discount rate	**2.7%**	2.6%
Rate of increase to pensions in payment	**3.1%**	3.3%
Future salary increases	**4.8%**	4.9%
Inflation (RPI)	**3.3%**	3.4%
Inflation (CPI)	**2.3%**	2.4%

The mortality assumptions used by the independent qualified actuaries to calculate the liability under FRS 102 were the same as those relating to the Komatsu UK Staff Pension Scheme as noted above.

If life expectancy had been changed to assume that the member lived for one year longer, the value of the reported liabilities at 31 March 2018 would have increased by £0.083 million.

19 Called up share capital

	2018 £000	2017 £000
Allotted, called up and fully paid		
23,810,000 Ordinary shares of £1 each	**23,810**	23,810

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Dividends

Dividends paid during 2018 comprised a final dividend of £754,000 in respect of the year ended 31 March 2017. No dividends was paid in respect of the current year. The directors have proposed a final ordinary dividend in respect of the current financial year of £973,000. This has not been included within creditors as it was not approved before the year end.

Notes *(continued)*

20 Reserves

	Profit and loss account 2018 £000	2017 £000
Balance at 1 April	**43,701**	46,384
Profit for the year	**3,243**	2,512
Dividends on shares classified in shareholders' funds	**(754)**	(450)
Remeasurement of the net defined benefit assets	**6,210**	(6,005)
Income tax on other comprehensive income	**(1,038)**	1,260
Balance at 31 March	**51,362**	43,701

21 Financial instruments

Financial instruments measured at fair value

	2018 £000	2017 £000
Financial assets at fair value through profit or loss		
- Derivative financial instruments	**87**	508

Derivative financial instruments – Forward contracts

The Company is party to a variety of foreign currency forward contracts in the management of its exchange rate exposures. At the balance sheet date the Company had outstanding forward foreign currency contracts, all of which mature within three to six months. The fair values of these instruments at the year end were as follows:

	Currency	**2018 Nominal value in currency '000**	**Fair value £000**	Currency	2017 Nominal value in currency '000	Fair value £000
Sell	**EUR**	**81,121**	**187**	**EUR**	**67,692**	**503**
Buy	**EUR**	**10,284**	**6**	**EUR**	**1,653**	**(6)**
Sell	**JPY**	**-**	**-**	**JPY**	**48,525**	**3**
Buy	**JPY**	**1,770,461**	**(13)**	**JPY**	**1,289,942**	**31**
Sell	**USD**	**415**	**(1)**	**USD**	**866**	**3**
Buy	**USD**	**8,768**	**(92)**	**USD**	**8,507**	**(26)**
			87			**508**

Changes in the fair value of the above non-hedging currency derivatives amounted to a loss of £421,000 and have been recognised in the profit and loss account in the year (note 9). In 2017, this represented a gain of £1,085,000 (note 8).

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

Notes *(continued)*

22 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2018 £000	2017 £000
Less than one year	**228**	255
Between one and five years	**426**	599
More than five years	**-**	-
	654	854

23 Commitments

Capital commitments

The Company's contractual commitments to purchase fixed assets at the year end were £917,000 *(2017: £769,000)*.

24 Related party disclosures

The Company is controlled by Komatsu Europe International NV which owns 100% of the Company's ordinary share capital.

Komatsu Ltd is the ultimate controlling party of Komatsu Europe International NV and, therefore, also of the Company.

25 Ultimate parent company and parent undertaking of larger group of which the company is a member

The Company is a subsidiary undertaking of Komatsu Ltd, which is the ultimate parent company incorporated in Japan.

The only group in which the results of the Company are consolidated is that headed by Komatsu Ltd, incorporated in Japan. The consolidated financial statements of this group are available to the public and may be obtained from Komatsu Ltd, Komatsu Building, 2-3-6 Akasaka, Minato-Ku, Tokyo, 107, Japan.

Notes *(continued)*

26 Accounting estimates and judgements

In the preparation of the financial statements, it is necessary for the management of the company to make judgements, estimates and assumptions that may affect the application of accounting policies and the reported amounts of assets and liabilities, and 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. Actual results may differ from these estimates. The key areas requiring the use of estimates and judgements which may significantly affect the financial statements are considered to be:

Stock provisioning

The Company designs, manufactures and sells products which are subject to changing technological advances. As a result it is necessary to consider the recoverability of the cost of inventory and the associated provisioning required. When calculating the inventory provision, management considers the nature and condition of the inventory, as well as applying assumptions around anticipated saleability of finished goods and future usage of raw materials. See note 13 for the net carrying amount of the inventory and associated provision.

Defined benefit pension scheme

The Company has an obligation to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including; life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension surplus in the balance sheet. The assumptions reflect historical experience and current trends. See note 18 for the disclosures relating to the defined benefit pension scheme.

Provisions

Provision is made for warranty costs and cost of providing 'Komtrax'. These provisions require management's best estimate of the costs that will be incurred based on legislative and contractual requirements - see note 17.