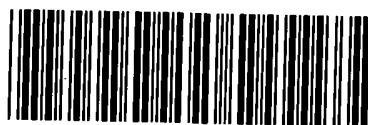


Donaldson Filtration (GB) Limited
Annual Report
for the year ended 31 July 2017

Registered Number: 03914641

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Donaldson Filtration (GB) Limited

Directors' report and financial statements for the year ended 31 July 2017

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Donaldson Filtration (GB) Limited

Directors and advisors for the year ended 31 July 2017

Directors

D I Jowett

P Habran

D J Muir (resigned 7 March 2017)

C K Cook (appointed 7 March 2017)

Company Secretary

Rollits Company Secretaries Limited

Registered Office

Citadel House

58 High Street

Hull

East Yorkshire

HU1 1QE

Independent auditors

PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

2 Humber Quays

Wellington Street West

Hull

HU1 2BN

Solicitors

Rollits LLP

Citadel House

58 High Street

Hull

East Yorkshire

HU1 1QE

Bankers

Lloyds Bank

72 Bailey Drive

Gillingham

Kent

ME8 OLS

BNP Paribas Fortis SA/NV

Montagne du Parc 3

B-1000

Brussels

Belgium

BNP Paribas Fortis SA/NV

10 Harewood Avenue

London

NW1 6AA

Donaldson Filtration (GB) Limited

Strategic report for the year ended 31 July 2017

Introduction

The directors present their strategic report for the year ended 31 July 2017.

Principal activities & business review

The company's principal activity during the year continued to be the manufacture and supply of industrial filtration equipment, spares and systems.

In the financial year ended 31 July 2017, turnover increased from £23,552,000 to £24,804,000. Loss for the financial year ended 31 July 2017 arose of £603,000 compared to a profit in prior year of £173,000.

The business continues to trade in a challenging operating environment and was subject to increases in raw material prices and foreign exchange variances which could not be passed onto end customers. Other one-off operating expenses, which are not anticipated to re-occur in the foreseeable future also contributed to the change in results from prior year.

The directors consider the level of business and the financial position of the balance sheet at the year-end to be satisfactory.

Future developments

The external commercial environment is expected to remain competitive throughout the year to 31 July 2017, however the directors expect that the present level of activity will be sustained for the foreseeable future.

Principal risks and uncertainties

The management of the business and the execution of the company's strategy are subject to a number of risks.

The key business risks and uncertainties affecting the company are considered to relate to manufacturing competition from UK and overseas suppliers together with the economic climate in the company's various markets.

The risk that the company's products, services and pricing do not remain competitive could result in the loss of market share, with the consequential impact on long-term financial performance. We help manage this by a combination of approaches:

- Establishment of long-term customer relationships to differentiate products and services and protect margins
- Steady focus on improvement in operational performance, for example through the modernisation of facilities
- Increased focus on managing the cost of operations and products
- Sustained investment in equipment and people

Donaldson Filtration (GB) Limited

Strategic report for the year ended 31 July 2017 (continued)

The risk of disruption of the supply chain due to external factors or failure to deliver parts to committed costs and quality could result in a reduced ability to meet customer commitments, win future business or achieve operational results. We help manage this by a combination of approaches:

- Continuous improvement of all processes and project management controls to ensure both technical and business objectives are achieved
- Focus on production quality through plant and supplier improvement plans providing duality of capability through establishment of world-class manufacturing facilities

Key performance indicators ("KPIs")

Given the straightforward nature of the business, the company's directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business.

This report was approved by the board on 21 February 2018 and signed on its behalf.

D I Jowett

Director

27 February 2018



Donaldson Filtration (GB) Limited

Directors' report for the year ended 31 July 2017

Introduction

The directors present their annual report and the audited financial statements of the company for the year ended 31 July 2017.

Results and dividends

The company's loss for the financial year was £603,000 (2016: £173,000 profit). The directors do not recommend the payment of a final dividend for the year ended 31 July 2017 (2016: £nil). No dividends were paid during the year (2016: £nil).

Directors

The directors who served during the year and up to the date of signing the financial statements are

D I Jowett
P Habran
D J Muir (resigned 7 March 2017)
C K Cook (appointed 7 March 2017)

Qualifying third party pension scheme indemnity provisions

The company maintains third party pension scheme indemnity insurance in respect of the trustees of the company pension scheme which gives appropriate cover for any legal actions brought against any of the trustees.

Two Directors of the company are also Trustees of the pension scheme.

Employees

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 the 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 views are taken into account when decisions are made that are likely to affect their interests and that all employees are aware of the financial and economic performance of their business units and of the company as a whole. Communication with all employees continues through internal newsletters, briefing groups and electronic communications.

Financial risk management

The company's operations expose it to a variety of financial risks that include the effects of changes in price, credit, liquidity, interest rates and exchange rates. The company has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the company by monitoring levels of debt finance and the related finance costs.

In order to ensure stability of cash outflows and hence manage interest rate risk, all of the European companies within the Donaldson group have centralised their respective treasury operations to the treasury department of the Donaldson European head office in Leuven, Belgium.

Donaldson Filtration (GB) Limited

Directors' report for the year ended 31 July 2017 (continued)

Financial risk management (continued)

The European group has a policy of maintaining 100 per cent of its debt (2016: 100 per cent) at variable rate. Further to this the European group seeks to minimise the risk of uncertain funding in its operations by borrowing within a spread of maturity periods. Given the size and nature of operations, the European group's policy is to operate with 100 per cent of its debt being repayable within one year. At the year end, 100 per cent (2016: 100 per cent) of external debt was repayable within one year. The European group does not use derivative financial instruments to manage interest rate costs and as such, no hedge accounting is applied.

Given the size of the company, the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the board. The policies set by the board of directors are implemented by the company's finance department.

Price risk

The company is exposed to commodity price risk as a result of its operations. However, given the size of the company's operations, the costs of managing exposure to commodity price risk exceed any potential benefits. The directors will revisit the appropriateness of this policy should the company's operations change in size or nature.

Credit risk

The company has implemented policies that require appropriate credit checks on potential customers before sales are made. Where debt finance is utilised, the company does this through the Donaldson Coordination Centre, at the Donaldson European head office in Leuven, Belgium.

Liquidity risk

The company actively maintains a mixture of debt finance from other group companies that is designed to ensure the company has sufficient available funds for operations and planned expansions.

Interest rate risk

The company has both interest bearing assets and interest bearing liabilities. Interest bearing assets represent short term deposits on Libor related interest rates. The company has a policy of maintaining debt at Libor related rates to ensure market comparability of future interest cash flows. The directors will revisit the appropriateness of this policy should the company's operations change in size or nature.

Exchange rate risk

The company operates internationally and is exposed to exchange rate risk arising from various currency exposures, primarily with respect to the Euro & US dollar. The company enters into forward exchange contracts with major European banks to hedge against this exchange rate risk.

Statement of directors' responsibilities

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

Donaldson Filtration (GB) Limited

Directors' report for the year ended 31 July 2017 (continued)

Statement of directors' responsibilities (continued)

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising Financial Reporting Standard 102 The Financial Reporting Standard Applicable in the UK and Republic of Ireland (FRS 102), and applicable law).

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards comprising FRS 102 have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 102 used in the preparation of financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Disclosure of information to auditors

So far as each director is aware, there is no relevant audit information of which the company's auditors are unaware. Relevant information is defined as "information needed by the company's auditors in connection with preparing their report".

Each director has taken all the steps that he ought to have taken in his duty as a director (such as making enquiries of other directors and the auditors and any other steps required by the directors' duty to exercise due care, skill and diligence) in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Independent auditors

In the absence of any notice proposing to terminate their appointment, PricewaterhouseCoopers LLP will be deemed to be reappointed for the next financial year. PricewaterhouseCoopers LLP have indicated their willingness to continue in office.

On behalf of the Board,

D I Jowett
Director

27 February 2018



Donaldson Filtration (GB) Limited

Independent auditors' report to the members of Donaldson Filtration (GB) Limited

Report on the audit of the financial statements

Opinion

In our opinion, Donaldson Filtration (GB) Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 July 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the Balance sheet as at 31 July 2017; the Profit and loss account, Statement of Comprehensive income, the Statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

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

Reporting on other information

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

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

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

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

Donaldson Filtration (GB) Limited

Independent auditors' report to the members of Donaldson Filtration (GB) Limited (continued)

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 July 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities set out on pages 5 and 6, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.



Peter Adams (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Hull

February 2018

Donaldson Filtration (GB) Limited

Profit and loss account for the year ended 31 July 2017

	Note	2017 £'000	2016 £'000
Turnover	2	24,804	23,552
Cost of Sales		(16,936)	(14,932)
Gross Profit		7,868	8,620
Administrative expenses		(8,742)	(8,549)
Operating (loss)/profit	3	(874)	71
Interest receivable and similar income		26	42
Other finance income		16	109
(Loss)/profit on before taxation		(832)	222
Tax on (loss)/profit	6	229	(49)
(Loss)/profit for the financial year		(603)	173

The results shown above derive from continuing operations.

There is no material difference between the results shown above and the results of the company under the historical cost convention.

The notes on pages 12 to 32 form part of these financial statements.

Statement of Comprehensive income for the year ended 31 July 2017

	Note	2017 £'000	2016 £'000
(Loss)/profit for the financial year		(603)	173
Actuarial gain/(loss) on pension scheme	14	2,495	(2,238)
Movement on deferred tax relating to Pension Scheme	14	(491)	448
Total comprehensive income/(expense) relating to the year		1,401	(1,617)

Donaldson Filtration (GB) Limited

Balance sheet as at 31 July 2017

	Note	2017 £'000	2016 £'000
Fixed assets			
Intangible assets		5	19
Tangible assets	7	1,967	2,266
		1,972	2,285
Current assets			
Inventories	8	2,019	2,281
Debtors	9	8,538	10,869
Cash at bank and in hand		2,922	587
		13,479	13,737
Creditors - amounts falling due within one year	10	(7,516)	(7,575)
Net current assets		5,963	6,162
Total assets less current liabilities		7,935	8,447
Provisions for liabilities	11	(557)	(212)
Net assets (excluding pension asset)		7,378	8,235
Pension asset	14	3,006	748
Net assets including pension asset		10,384	8,983
Capital and reserves			
Called up share capital	12	-	-
Share premium account		2,600	2,600
Other reserves		9,297	9,297
Profit and loss account		(1,513)	(2,914)
Total shareholders' funds		10,384	8,983

The notes on pages 12 to 32 form part of these financial statements.

The financial statements on pages 9 to 32 were approved by the board of directors on 27 February 2018 and were signed on its behalf by:

D I Jowett
Director

Registered Number 03914641



Donaldson Filtration (GB) Limited

Statement of changes in equity for the year ended 31 July 2017

	Called up share capital	Share Premium Account	Other reserves	Profit and loss account	Total shareholders' funds
	£'000	£'000	£'000	£'000	£'000
Balance as at 1 August 2015	-	2,600	9,297	(1,297)	10,600
Profit for the financial year	-	-	-	173	173
Other comprehensive expense for the financial year	-	-	-	(1,790)	(1,790)
Total comprehensive expense for the year	-	-	-	(1,617)	(1,617)
Balance as at 31 July 2016	-	2,600	9,297	(2,914)	8,983
Balance as at 1 August 2016	-	2,600	9,297	(2,914)	8,983
Loss for the financial year	-	-	-	(603)	(603)
Other comprehensive income for the financial year	-	-	-	2,004	2,004
Total comprehensive income for the year	-	-	-	1,401	1,401
Balance as at 31 July 2017	-	2,600	9,297	(1,513)	10,384

Other reserves consist of a capital contribution made in prior years.

The notes on pages 12 to 32 form part of these financial statements.

Donaldson Filtration (GB) Limited

Notes to the financial statements for the year ended 31 July 2017

1 Accounting policies

Statement of compliance

The individual financial statements of Donaldson Filtration (GB) Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006, under the provision of the large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410).

Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The company has adopted FRS 102 in these financial statements.

Basis of Preparation

These financial statements are prepared on the going concern basis, under the historical cost convention and certain financial assets and liabilities measured at fair value through profit or loss in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom.

The preparation of financial statements in conformity with FRS 102 requires the use of certain accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed below.

Going Concern

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

Exemptions for qualifying entities under FRS 102

FRS 102 allows a qualifying entity certain disclosure exemptions, subject to certain conditions, which have been complied with, including notification of, and no objection to, the use of exemptions by the Company's shareholders.

Donaldson Filtration (GB) Limited

Notes to the financial statements for the year ended 31 July 2017 (continued)

1 Accounting policies (continued)

The Company has taken advantage of the following exemptions on the basis that it is a qualifying entity and its ultimate parent company, Donaldson Company Inc, includes equivalent disclosures in its own consolidated financial statements:

- I. IFRS 7, 'Financial Instruments: Disclosures'.
- II. Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities).
- III. IAS 7; The requirement to prepare a statement of cash flows.
- IV. Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).
- V. Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation).
- VI. Certain financial instrument disclosures given equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated.
- VII. The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.
- VIII. Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements.

Consolidated financial statements

The company is a wholly owned subsidiary of Donaldson UK Holding Limited and of its ultimate parent, Donaldson Company Inc. It is included in the consolidated financial statements of Donaldson Company Inc, which are publicly available. Therefore the company is exempt by virtue of section 401 of the Companies Act 2006 from the requirement to prepare consolidated financial statements.

These financial statements are the company's separate financial statements.

Foreign currency

Functional and presentation currency

The Company's functional and presentation currency is the pound sterling.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account except when deferred in other comprehensive income as qualifying cash flow hedges.

Donaldson Filtration (GB) Limited

Notes to the financial statements for the year ended 31 July 2017 (continued)

1 Accounting policies (continued)

Foreign Currency (continued)

Transactions and balances (continued)

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 'Other operating income/(expense)'.

Revenue Recognition

Turnover represents amounts receivable for goods and services provided in the normal course of business, net of trade discounts, VAT and other sales related taxes. Turnover is recognised upon despatch of goods, or when goods are available for collection.

Tangible fixed assets and depreciation

Land is not depreciated. Depreciation on other assets is calculated, using the straight-line method, to allocate the cost to their residual values over their estimated useful lives, as follows:

Freehold buildings	-	over 25 years
Plant, machinery and fixtures	-	3 to 10 years

The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at the end of each reporting period. The effect of any change is accounted for prospectively.

Inventories

Inventories are stated at the lower of cost and net realisable value, being estimated selling price less costs to sell. Inventories are recognised as an expense in the period in which the related turnover is recognised.

Cost is determined on a first-in, first-out (FIFO) method. Cost includes the purchase price, including taxes and duties and transport and handling directly attributable to bringing the stock to its present location and condition.

At the end of each reporting period, inventories are assessed for impairment. If an item of inventory is impaired, the identified inventory is reduced to its selling price less costs to complete and sell and an impairment charge is recognised in the profit and loss account. Where a reversal of the impairment is recognised the impairment charge is reversed, up to the original impairment loss, and is recognised as a credit in the profit and loss account.

Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity, respectively. Current or deferred taxation assets and liabilities are not discounted.

Donaldson Filtration (GB) Limited

Notes to the financial statements for the year ended 31 July 2017 (continued)

1 Accounting policies (continued)

Current taxation

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred taxation

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is recognised on all timing differences at the reporting date except for certain exceptions. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

Leased assets

At inception the company assesses agreements that transfer the right to use assets. The assessment considers whether the arrangement is, or contains, a lease based on the substance of the arrangement.

Operating leased assets

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Payments under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

Employee benefits

The Company provides a range of benefits to employees, including annual bonus arrangements, paid holiday arrangements and defined benefit and defined contribution pension plans.

Short term benefits

Short term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the period in which the service is received.

Defined contribution pension plan

The company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. Once the contributions have been paid the company has no further payments obligations.

The contributions are recognised as an expense in the statement of comprehensive income/ expense when they fall due. Amounts not paid are shown in accruals as a liability in the Balance sheet. The assets of the plan are held separately from the company in independently administered funds.

Donaldson Filtration (GB) Limited

Notes to the financial statements for the year ended 31 July 2017 (continued)

1 Accounting policies (continued)

Defined benefit pension plan

The company operates a defined benefit plan for certain employees. A defined benefit plan defines the pension benefit that the employee will receive on retirement, usually dependent upon several factors including but not limited to age, length of service and remuneration. A defined benefit plan is a pension plan that is not a defined contribution plan.

The liability recognised in the balance sheet in respect of the defined benefit plan is the present value of the defined benefit obligation at the end of the balance sheet date less the fair value of plan assets at the balance sheet date (if any) out of which the obligations are to be settled.

The defined benefit obligation is calculated using the projected unit credit method. Annually the company engages independent actuaries to calculate the obligation. The present value is determined by discounting the estimated future payments using market yields on high quality corporate bonds that are denominated in sterling and that have terms approximating to the estimated period of the future payments ('discount rate').

The fair value of plan assets is measured in accordance with the FRS 102 fair value hierarchy and in accordance with the company's policy for similarly held assets. This includes the use of appropriate valuation techniques.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income. These amounts together with the return on plan assets, less amounts included in net interest, are disclosed as 're-measurement of net defined benefit liability'.

The cost of the defined benefit plan, recognised in profit or loss as employee costs, except where included in the cost of an asset, comprises:

- i) the increase in net pension benefit liability arising from employee service during the period; and
- ii) the cost of plan introductions, benefit changes, curtailments and settlements.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is recognised in the profit and loss account in the profit or loss as 'Finance expense'.

Annual bonus plan

The company operates an annual bonus plan for employees. An expense is recognised in the profit and loss account when the company has a legal or constructive obligation to make payments under the plan as a result of past events and a reliable estimate of the obligation can be made.

Financial Instruments

The company has chosen to adopt the Sections 11 and 12 of FRS 102 in respect of financial instruments.

Donaldson Filtration (GB) Limited

Notes to the financial statements for the year ended 31 July 2017 (continued)

1 Accounting policies (continued)

Financial assets

Basic financial assets, including trade and other receivables, amounts owed by group undertakings and cash and bank balances are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is decrease in the impairment loss arising from an event occurring after the impairment was recognised the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

Financial liabilities

Basic financial liabilities, including trade and other payables and loans from fellow group companies, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest. Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Derivatives, including forward foreign exchange contracts, are not basic financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or income as appropriate. The company does not currently apply hedge accounting for interest rate and foreign exchange derivatives.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

Donaldson Filtration (GB) Limited

Notes to the financial statements for the year ended 31 July 2017 (continued)

1 Accounting policies (continued)

Offsetting

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle to liability simultaneously.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Provisions and contingencies

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount of the obligation can be estimated reliably.

Cash and cash equivalents

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

Critical judgements in applying the entity's accounting policies

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

Critical accounting judgements and estimated uncertainty

a) *Useful economic lives of tangible assets*

The annual depreciation charge for tangible assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See note 7 for the carrying amount of the property plant and equipment, and note 1 for the useful economic lives for each class of assets.

b) *Impairment of debtors*

The company makes an estimate of the recoverable value of trade and other debtors. When assessing impairment of trade and other receivables, management considers factors including the credit rating of the receivable, the ageing profile of receivables and historical experience. See note 9 for the net carrying amount of the debtors and associated impairment provision.

Donaldson Filtration (GB) Limited

Notes to the financial statements for the year ended 31 July 2017 (continued)

1 Accounting policies (continued)

Critical accounting judgements and estimated uncertainty (continued)

c) Defined Benefit Pension Scheme

The Company operates a defined benefit pension scheme. In producing an estimated year end position for the scheme the directors use a series of assumptions related to, for example, mortality, inflation and discount rates. In setting these assumptions the directors rely on advice given to them by the scheme actuary although the final decision as to what assumptions are to be used rests with the directors. Details of the assumptions used in the financial statements can be found in note 14.

d) Inventory provisioning

The company manufactures air filters which it sells, together with silencers and related accessories, in the heavy equipment, automotive and machinery markets both in the United Kingdom and overseas. 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 8 for the net carrying amount of the inventory and associated provision.

Donaldson Filtration (GB) Limited

Notes to the financial statements for the year ended 31 July 2017 (continued)

2 Turnover

The turnover all relates to the principal activity of the company which is the manufacture and supply of industrial filtration equipment, spares and systems.

An analysis of turnover by geographical market supplied is given below:

	2017 £'000	2016 £'000
United Kingdom	12,206	11,061
Other European countries	9,013	8,740
Rest of the world	3,585	3,751
	24,804	23,552

3 Operating (loss)/profit

	2017 £'000	2016 £'000
Operating (loss)/profit is stated after charging/(crediting):		
Depreciation (note 7)	420	306
Amortisation	14	15
Operating lease rentals	223	243
Audit fees payable to the company's auditors	21	22
Exchange loss/(gain) on foreign currency	53	(7)
(Gain)/loss on sale of fixed assets	-	-

Donaldson Filtration (GB) Limited

Notes to the financial statements for the year ended 31 July 2017 (continued)

4 Staff costs

	2017 £'000	2016 £'000
Wages and salaries	5,944	5,969
Social security costs	619	600
Other pension costs (note 14)	747	789
	7,310	7,358

The average monthly number of staff (including directors) during the

	2017 Number	2016 Number
General and administration	10	10
Selling and marketing	50	53
Production	106	116
Technical	3	3
	169	182

5 Directors' remuneration

	2017 £'000	2016 £'000
The remuneration of the directors was as follows:		
Aggregate remuneration	131	105
Remuneration for loss of office	39	-
	170	105

	2017 Number	2016 Number
Members of the defined benefit scheme at year end	-	1

	2017 £'000	2016 £'000
Highest paid director		
Total amount of emoluments and amounts (excluding shares) receivable under long-term incentive scheme	170	105
Defined benefit pension scheme:		
- Accrued pension at end of year	14	13
- Accrued lump sum at the end of the year	-	-

Donaldson Filtration (GB) Limited

Notes to the financial statements for the year ended 31 July 2017 (continued)

6 Tax on (loss)/profit on ordinary activities

(a) Tax on (loss)/profit

The tax for the year is made up as follows:

	2017 £'000	2016 £'000
Current tax:		
UK corporation tax on (loss)/profit of the year	(93)	75
Foreign tax suffered	16	15
Adjustment in respect of prior years	(6)	22
Adjustment to foreign tax charge in respect of prior years	-	(15)
Total current tax	(83)	97
Deferred tax:		
Origination and reversal of timing differences	(87)	(35)
Change in tax rate	(65)	(23)
Adjustment in respect of prior years	6	10
Total deferred tax	(146)	(48)
Total tax on (loss)/profit	(229)	49

(b) Tax (expense)/income included in other comprehensive income

	2017 £'000	2016 £'000
Deferred tax		
- Origination and reversal of timing differences	(491)	448
Total tax (expense)/income included in other comprehensive income	(491)	448

Donaldson Filtration (GB) Limited

Notes to the financial statements for the year ended 31 July 2017 (continued)

6 Tax on (loss)/profit (continued)

(c) Reconciliation of tax charge

Tax assessed for the year is higher (2016: higher) than the standard effective rate of corporation tax in the UK for the year ended 31 July 2017 of 19.67% (2016: 20%). The differences are explained below:

	2017 £'000	2016 £'000
(Loss)/profit before taxation	(832)	222
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.67% (2016: 20%)	(164)	44
Effects of:		
- Income/expenses not subject to tax	12	15
- Overseas tax rates	(12)	(4)
- Re-measurement of deferred tax- change in UK tax rate	(65)	(23)
- Adjustment in respect of prior years	-	32
- Adjustment to foreign tax charge	-	(15)
Total tax charge for the year	(229)	49

(d) Factors affecting future charges

The Finance (No2) Act 2015 received Royal Assent on 18 November 2015 and announced a reduction in the main rate of corporation tax from 20% to 19% from 1 April 2017 with a further reduction to 18% from 1 April 2020. The Finance Act 2016 received Royal Assent on 15th September 2016 and announced a further 1% reduction in the main rate of corporation tax from 1 April 2020. Deferred tax has provided in the balance sheet at 17%, being the rate enacted at the balance sheet date.

Donaldson Filtration (GB) Limited

Notes to the financial statements for the year ended 31 July 2017 (continued)

7 Tangible assets

	Freehold land and buildings £'000	Plant, machinery and vehicles £'000	Total £'000
Cost			
At 1 August 2016	1,989	5,618	7,607
Additions	-	121	121
Disposals	-	(347)	(347)
At 31 July 2017	1,989	5,392	7,381
Accumulated depreciation			
At 1 August 2016	845	4,496	5,341
Charge for the year	60	360	420
Disposals	-	(347)	(347)
At 31 July 2017	905	4,509	5,414
Net book value			
31 July 2017	1,084	883	1,967
31 July 2016	1,144	1,122	2,266

Freehold land amounting to £535,000 (2016: £535,000) has not been depreciated.

In the opinion of the directors, there is no material difference between the book value of the fixed assets and market value.

8 Inventories

	2017 £'000	2016 £'000
Raw materials and consumables	835	1,013
Work in progress	399	222
Finished goods	785	1,046
	2,019	2,281

In the opinion of the directors, the replacement cost of stocks is not materially different from the balance sheet value.

The total value of Inventory recognised as an expense in the year was £16,936,000 (2016: £14,932,000).

Inventories are stated after provisions for impairment of £71,282 (2016: £25,254).

Donaldson Filtration (GB) Limited

Notes to the financial statements for the year ended 31 July 2017 (continued)

9 Debtors

	2017	2016
	£'000	£'000
Trade debtors	3,554	4,401
Amounts owed by group undertakings	4,683	6,318
Prepayments and accrued income	208	150
Corporation tax	93	-
	8,538	10,869

Amounts owed by group undertakings are unsecured, interest free & repayable on demand except for a loan of £3,574,000 (2016: £4,758,000) which accrues interest at LIBOR +0.25% and is repayable on demand.

10 Creditors – amounts falling due within one year

	2017	2016
	£'000	£'000
Trade creditors	1,530	1,662
Amounts owed to group undertakings	4,118	4,431
Other creditors	1,222	1,083
Other taxation and social security	293	80
Corporation tax	-	78
Accruals and deferred income	353	237
Forex contract	-	4
	7,516	7,575

Amounts owed to group undertakings are unsecured, interest free & repayable on demand.

Donaldson Filtration (GB) Limited

Notes to the financial statements for the year ended 31 July 2017 (continued)

11 Provisions for liabilities

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

	2017 £'000	2016 £'000
Capital allowances in advance of depreciation	46	77
Post-employment benefits	511	135
Total provision	557	212

Deferred tax liabilities	Post-employment benefits £'000	Accelerated capital allowances £'000	Other short term timing differences £'000	Total £'000
Deferred taxation:				
At 1 August 2016	135	77	-	212
(Charged)/credited to the profit and loss account (note 6)	(115)	(31)		(146)
Charged directly to other comprehensive income	491	-	-	491
At 31 July 2017	511	46	-	557

Deferred tax is provided at 17% (2016: 18%) being the rate substantively enacted at the balance sheet date.

12 Called up share capital

	2017 £'000	2016 £'000
Allotted and fully paid		
3 (2016: 3) ordinary shares of £1 each	-	-

All shares rank pari passu in all respects.

Donaldson Filtration (GB) Limited

Notes to the financial statements for the year ended 31 July 2017 (continued)

13 Capital commitments

At 31 July, the company had the following capital commitments:

	2017	2016
	£'000	£'000
Contracted for but not provided for	70	77

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

	Motor vehicles 2017 £'000	Motor vehicles 2016 £'000
Payments due:		
Not later than one year	191	191
Later than one year and not later than five years	203	230
Later than five years	-	-
	394	421

14 Pension commitments

For certain employees, the company operates a defined benefit pension scheme with assets held in a separately administered fund, Donaldson (UK) Pension and Death Benefits Plan. The scheme provides retirement benefits on the basis of members' final salary. The plan is administered by an independent trustee, who is responsible for ensuring that the plan is sufficiently funded to meet current and future obligations. The Group has agreed a funding plan with the trustee, whereby ordinary contributions are made into the scheme based on a percentage of active employees' salary.

As the plans mature, the company intends to reduce the level of investment risk by investing more in assets that better match the liabilities. During the prior year, the trustees of the pension scheme authorised an investment strategy review of the schemes assets. As a result of this report, the trustees adopted the recommendations of the investment consultant and moved the scheme assets into Diversified Growth Fund investment funds and Liability Driven Investment funds.

Donaldson Filtration (GB) Limited

Notes to the financial statements for the year ended 31 July 2017 (continued)

14 Pension commitments (continued)

The amount recognised in the profit and loss account is as follows:

	2017 £'000	2016 £'000
Defined benefit scheme		
- Current service cost	627	669
Total charge in operating (loss)/profit	627	669
Defined benefit scheme		
- Net interest income	(16)	(109)
Total Charge	(16)	(109)

The amount recognised in the balance sheet is as follows:

	31 July 2017 £'000	31 July 2016 £'000
Total market value of scheme assets	54,795	57,485
Present value of scheme liabilities	(51,789)	(56,737)
Gross scheme surplus	3,006	748
Deferred tax	(511)	(135)
Net pension surplus	2,495	613

Donaldson Filtration (GB) Limited

Notes to the financial statements for the year ended 31 July 2017 (continued)

14 Pension commitments (continued)

A comprehensive actuarial valuation of the company pension scheme, using the projected unit basis, was carried out at 1 April 2013 by Mercer LLC, independent consulting actuaries and was reflected in the 31 July 2014 valuation. Adjustments to the valuation at that date have been made based on the following assumptions:

	31 July 2017 % per annum	31 July 2016 % per annum
RPI Inflation	3.2%	2.8%
CPI Inflation	2.2%	1.8%
Salary increases	2.5%	2.5%
Rate of discount	2.6%	2.5%
Allowance for revaluation of deferred pensions of CPI or 5% if less	2.2%	1.8%
Allowance for revaluation of deferred pensions of CPI or 2.5% if less	2.2%	1.8%
Allowance for pension in payment increases of CPI or 3% if less	1.9%	1.8%
Allowance for pension in payment increases of RPI or 5% if less	3.1%	2.8%
Allowance for pension in payment increases of RPI or 2.5% if less	2.1%	2.5%
Allowance for commutation of pension for cash at retirement	100% of Post A Day	100% of Post A Day

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in the UK.

The mortality assumptions adopted at 31 July 2017 imply the following life expectancies:

Male retiring at age 65 in 2017	22.1
Female retiring at age 65 in 2017	23.9
Male retiring at age 65 in 2037	23.5
Female retiring at age 65 in 2037	25.4

The mortality assumptions adopted at 31 July 2016 were:

Male retiring at age 65 in 2016	22.1
Female retiring at age 65 in 2016	24.4
Male retiring at age 65 in 2036	23.8
Female retiring at age 65 in 2036	26.3

Donaldson Filtration (GB) Limited

Notes to the financial statements for the year ended 31 July 2017 (continued)

14 Pension commitments (continued)

Reconciliation of scheme assets and liabilities.

	Assets	Liabilities	Total
	£'000	£'000	£'000
At 1 August 2016	57,485	(56,737)	748
Benefits paid	(1,941)	1,941	-
Employer contributions	374	-	374
Plan participant contributions	168	(168)	-
Current service costs	-	(627)	(627)
Interest income/(expense)	1,420	(1,404)	16
Re-measurement (losses)/gains	(2,711)	5,206	2,495
At 31 July 2017	54,795	51,789	3,006

Total cost recognised as an expense:

	2017	2016
	£'000	£'000
Current service cost	627	669
Past service cost	-	-
Interest (income)/expense	(16)	(109)
Total expense	611	560

The fair value of the plan assets was:

	2017	2016
	£'000	£'000
Diversified growth funds	36,530	37,712
Cash	171	255
Liability driven investments	18,094	19,518
Total assets	54,795	57,485

The plan assets do not include any of the Group's financial instruments nor is any property occupied by any Group entity.

The return on the plan assets was:

	2017	2016
	£'000	£'000
Interest income	1,420	1,787
Re-measurements	(2,711)	7,087
Total return on plan assets	(1,291)	8,874

Donaldson Filtration (GB) Limited

Notes to the financial statements for the year ended 31 July 2017 (continued)

14 Pension commitments (continued)

The plan assets do not include any of the Group's financial instruments nor is any property occupied by any Group entity.

The best estimate of contributions to be paid by the company to the scheme for the year beginning 1 August 2017 is £388,000.

Defined contribution schemes

The company made contributions during the year to defined contribution schemes of £89,947 (2016: £91,910).

Auto enrolment scheme

The company made contributions during the year to the auto enrolment scheme of £30,027 (2016: £27,767).

15 Financial instruments

The company has the following financial instruments:

	Note	31 July 2017 £'000	31 July 2016 £'000
Financial assets that are debt instruments measured at amortised cost			
- Trade receivables	9	3,554	4,401
- Amounts owed by group undertakings	9	4,683	6,318
		8,237	10,719
Financial liabilities measured at amortised cost			
- Trade creditors	10	1,530	1,662
- Accruals	10	353	237
- Other creditors	10	284	309
- Amounts owed to Group undertakings	10	4,118	4,431
		6,285	6,639

Donaldson Filtration (GB) Limited

Notes to the financial statements for the year ended 31 July 2017 (continued)

15 Financial instruments (continued)

Derivative financial instruments – Forward contracts

The Group enters into forward foreign currency contracts to mitigate the exchange rate risk for certain foreign currency payables. At 31 July 2017, there were no outstanding contracts and in prior year all were to mature within 1 month of the year end. The Group is committed to buy €nil and pay a fixed sterling amount (2016: €1,370,000).

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:USD and GBP:EUR. The fair value of the forward-foreign currency contracts is £nil (2016: £1,155,471).

16 Ultimate controlling party

The immediate parent company is Donaldson UK Holding Limited.

The directors regard Donaldson Company Inc, incorporated in the United States of America, as the ultimate parent undertaking and the ultimate controlling party.

Donaldson Company Inc is the parent company of the smallest and largest group of which the company is a member and for which group financial statements are drawn up. Copies of the financial statements are available from 1400 West 9th Street, PO Box 1299, Minneapolis, Minnesota, USA.

As a subsidiary undertaking of Donaldson Company Inc, the company has taken advantage of the exemption in FRS 102 "Related party disclosures" from disclosing transactions with other members of the group headed by Donaldson Company Inc.