Eaton Limited

Registered Number: 00155621

Report and Financial Statements

31 December 2018

Corporate information

Directors
J Mannerkoski
M Mullin
L Hayes

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

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

Solicitors
Eversheds Southerland
1 Wood Street
London
EC2V 7WS

Registered Office
PO Box 554
Abbey Park
Southampton Road
Titchfield
Fareham
PO14 4QA

Strategic report

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

Introduction

The principal activities of the company cover a variety of activities across our main aerospace, vehicle and hydraulic business lines. This includes selling, administrative, manufacturing operations, leasing activities and management services. These operations are based at a number of locations across the UK. The directors do not anticipate any changes in the company's activities in the foreseeable future.

Business review

	2018	2017	Change
	£'m	£'m	£'m
Turnover	398	377	21
(Loss)/Profit after tax	(7)	6	(13)
Shareholder's funds	68	90	(22)

Turnover for the year ended 31 December 2018 increased by 5.7% to £398m (2017 – £377m). This increase is in line with expectations as end markets have shown growth in these sectors. Direct labour and material costs are in line with turnover. Included in cost of sales is a provision release of £14.9m on an onerous contract due to a combination of improved underlying financials and a reduction in the number of units to be produced (see note 20 for further information).

Administration expenses increased to £68m (2017 - £42m). Key drivers included an increase in pension expense of £13m and royalty expense (net of R&D cost recharged) of £12m due to Eaton Intelligent Power Limited. Distribution costs decreased to £8m (2017 - £12m) due to R&D cost recharged to Eaton Intelligent Power Limited of £2.7m and lower freight costs of £1.3m following a logistics restructure.

The loss for the year, after taxation, is £6.9m (2017 – Profit of £6m).

Shareholders' funds at 31 December 2018 amounted to $73m.

The directors do not recommend that a dividend is paid (2017 – £nil).

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

Principal risks and uncertainties

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

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

Pricing pressure

- The company continues to experience strong pricing pressure from its competitors in key segments of the business.

Environmental

- The group pays particular attention to environmental matters and ensures corporate responsibility.

By order of the board

M Mullin
Director
31 January 2020

Registered No. 00155621

Directors' report

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

Directors

J Mannerkoski	
M Mullin	
L Hayes	Appointed 21 February 2019
P Martin	Resigned 17 August 2018
T Moran	Resigned 12 February 2018
N Papaioannou	Resigned 12 February 2018

Dividends

The directors do not recommend that a dividend is paid (2017 – £nil).

Future developments

The directors anticipate a neutral trading environment into 2019 and are expecting to maintain the sales volume generated in the current year.

Financial risk management

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

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

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

Liquidity risk

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

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

Foreign currency cash flow risk

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

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

Directors' report (continued)

Foreign currency cash flow risk (continued)

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

Credit risk

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

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

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

Research and development

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

Employees

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

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

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

Employee involvement

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

Going concern

The directors have undertaken an exercise to review the appropriateness of the continued use of the going concern basis. The company's business activities, a review of the business and a description of the

Directors' report (continued)

Going concern (continued)

principal risks and uncertainties, together with the company's financial risk management processes and narrative regarding its exposure to key financial risks are outlined above.

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

The directors note that the company has net current liabilities of £213,712,000 (2017 - £346,788,000) but as most of the debt the company has is intercompany and the company has been provided with a letter of support from a fellow group undertaking the directors are comfortable in adopting a going concern basis in preparing the financial statements.

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, the directors continue to adopt the going concern basis in preparing the annual report and financial statements.

Directors' liabilities

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

Auditors

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

Disclosure of information to the auditors

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

On behalf of the Board

M Mullin
Director
31 January 2020

Independent auditors' report

To the members of Eaton Limited

Directors' Responsibilities Statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 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 the profit or loss of the company for that period.

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

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

Independent auditors' report

To the members of Eaton Limited

Opinion

We have audited the financial statements of Eaton Limited for the year ended 31 December 2018 which comprise the Income statement, Statement of comprehensive income, Statement of changes in equity, Statement of financial position and the related notes 1 to 28, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

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

Basis for opinion

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

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

Conclusions relating to going concern

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

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

Other information

The other information comprises the information included in the annual report set out on pages 2-5, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Independent auditors' report

To the members of Eaton Limited

Use of our report

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

Ernst & Young LLP

Paul Copland (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Edinburgh
7 February 2020

Income statement

for the year ended 31 December 2018

	Notes	2018 £000	2017 £000
Turnover	3	398,455	376,738
Cost of sales		(327,453)	(321,839)
Gross Profit		71,002	54,899
Distribution costs		(8,131)	(12,467)
Administrative expenses		(68,473)	(41,672)
Other operating income		1,059	-
Other operating expenses		(354)	(388)
Operating (Loss)/Profit	4	(4,897)	372
Interest receivable and similar income	9	407	134
Interest payable and similar costs	10	(2,369)	(6,781)
Profit on disposal of intangible assets	13	-	11,426
Revaluation of investment property	14	100	475
Other finance costs	11	(121)	(129)
(Loss)/Profit on ordinary activities before taxation		(6,880)	5,497
Tax on (loss)/profit on ordinary activities	12	-	-
(Loss)/Profit for the financial year		(6,880)	5,497

All amounts relate to continuing operations.

Statement of comprehensive income

for the year ended 31 December 2018

	Notes	*2018* *£000*	*2017* *£000*
(Loss)/profit for the financial year		(6,880)	5,497
Actuarial (loss)/gain relating to post-retirement medical benefits	**24**	(296)	916
Re-measurement of pension schemes	**24**	53,323	124,300
Restriction on surplus		(43,424)	(43,424)
Deferred tax release		-	-
Total other comprehensive profit/(loss) for the year		(10,195)	81,792
Total comprehensive profit/(loss) of the year		(17,075)	87,289

Statement of changes in equity

for the year ended 31 December 2018

	Called up share capital	*Share premium*	*Capital redemption reserve*	*Capital contribution reserve*	*Share based payment contribution*
	£000	*£000*	*£000*	*£000*	*£000*
At 1 January 2017	2,100	111,276	200	153,312	2,120
Share based payments	-	-	-	-	93
Capital contribution Reclassification	-	-	-	(131,000)	-
Profit for the year	-	-	-	-	-
Other comprehensive profit	-	-	-	-	-
Total comprehensive profit for the year	-	-	-	-	-
At 31 December 2017	2,100	111,276	200	22,312	2,213
Share based payments	-	-	-	-	141
Loss for the year	-	-	-	-	-
Other comprehensive loss	-	-	-	-	-
Total comprehensive loss for the year	-	-	-	-	-
At 31 December 2018	2,100	111,276	200	22,312	2,354

Statement of financial position

at 31 December 2018

	Notes	2018 £000	2017 £000
Fixed assets			
Intangible assets	13	21,655	24,068
Tangible assets	14	52,099	43,975
Investment	15	233,590	233,590
		307,344	301,633
Current assets			
Stocks	16	82,930	77,104
Debtors: amounts falling due within one year	17	256,466	109,453
Cash at bank and in hand		23	551
		339,419	187,108
Creditors: amounts falling due within one year	19	(553,131)	(533,896)
Net current liabilities		(213,712)	(346,788)
Non-current assets			
Debtors: amounts falling due after one year	18	5,100	167,316
Total assets less current liabilities		98,732	122,161
Provisions for liabilities	20	(11,801)	(27,242)
Retirement benefits liabilities	24	(13,721)	(4,775)
Net assets		73,210	90,144

Statement of financial position (cont.)

	Notes	2018 £000	2017 £000
Capital and reserves			
Called up share capital	**21**	2,100	2,100
Share premium account	**22**	111,276	111,276
Capital redemption reserve	**22**	200	200
Capital contribution reserve	**22**	22,312	22,312
Share based payment contribution	**22**	2,354	2,213
Other reserves		387	387
Profit and loss account		(65,419)	(48,344)
		73,210	90,144

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

M Mullin
Director
31 January 2020

Notes to the financial statements

1. Authorisation of financial statements and statement of compliance

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

The financial statements of Eaton Limited for the year ended 31 December 2018 were authorised for issue by the board of directors 31 January 2020 and the balance sheet was signed on the board's behalf by M Mullin.

2. Accounting policies

2.1 Basis of preparation

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

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

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

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

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

iii. the requirements of Basic Financial Instruments paragraphs 11.39 to 11.48A and section 12 Other Financial Instruments Issues paragraphs 12.26 to 12.29

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

v. Requirements of Section 33 Related Party Disclosures, paragraph 33.7

2.2 Going concern

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

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

The directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook. After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the directors continue to adopt the going concern basis in preparing the annual report and financial statements.

Notes to the financial statements (continued)

2.3 Judgements and key sources of estimation uncertainty

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

The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements.

Development expenditure

Development expenditure is capitalised in accordance with the accounting policy given below in section 2.3. Initial capitalisation of costs is based on management's judgement that technical and economic feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. In determining the amounts to be capitalised management makes assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits.

Taxation

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

The following are the Groups key sources of estimation uncertainty:

Post-employment benefits

The cost of post-employment benefits are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, and mortality rates. Due to the complexity of the valuation, the underlying assumptions and the long term nature of these benefits, such estimates are subject to significant uncertainty. In determining the appropriate discount rate, management considers the interest rates of corporate bonds. The underlying bonds are further reviewed for quality, and those having excessive credit spreads are removed from the population bonds on which the discount rate is based, on the basis that they do not represent high quality bonds. The mortality rate is based on publicly available mortality tables for the specific country.

Goodwill and intangible assets

The company establishes a reliable estimate of the useful life of goodwill and intangible assets arising on business combinations. This estimate is based on a variety of factors such as the expected use of the acquired business, the expected usual life of the cash generating units to which the goodwill is attributed, any legal, regulatory or contractual provisions that can limit useful life and assumptions that market participants would consider in respect of similar businesses.

Warranties and onerous contracts

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

Onerous contract provisions represents management's best estimate of the amount by which the expected benefits from certain specific contracts are lower than the unavoidable cost of meeting its obligations under those contracts. The timeframe within which such provisions unwind varies by contract and is between 1 and 25 years. The onerous contract provisions have been discounted to reflect the net present value of the liabilities.

Notes to the financial statements (continued)

2.3 Judgements and key sources of estimation uncertainty (continued)

Impairment of non-financial assets

Where there are indicators of impairment of individual assets, the company performs impairment tests based on fair value less costs to sell or a value in use calculation. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction on similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash flows and the growth rate used for extrapolation purposes.

2.4 Significant accounting policies

(a) Revenue recognition

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

Sale of goods

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

Interest income

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

Dividends

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

(b) Research and development costs

Research and development expenditure is written off as incurred, except that development expenditure incurred on an individual project is capitalised as an intangible asset when the company can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised evenly over the period of expected future benefit. During the period of development the asset is tested for impairment annually.

(c) Tangible fixed assets

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

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

Notes to the financial statements (continued)

(c) Tangible fixed asset (continued)

Freehold buildings	–	over 40 years
Leasehold improvements	–	over the lease term
Plant and machinery	–	over 10 years
Fixtures, fittings, tools and equipment	–	over 3 to 10 years

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

(d) Impairment of non-financial assets

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

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

(e) Investments

Shares in group undertakings

These comprise investments in subsidiaries are recognised at cost less impairment.

(f) Provision for liabilities

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

Provisions for the expected costs of maintenance under guarantees are charged against profits when products have been invoiced. The effect of the time value of money is not material and therefore the provisions are not discounted.

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

Notes to the financial statements (continued)

2.4 Significant accounting policies (continued)

(g) Provision for liabilities (continued)

Provisions for onerous trading contracts are recognised when the expected benefits to be derived by the company from the contract are lower than the unavoidable costs of meeting its obligations under the contract. The company considered carefully the commercial and contractual relationship with its customers and contracts within the group it considered appropriate for consideration of the expected benefits. The future cash flows used in the onerous trading contract provision were discounted using an appropriate pre-tax rate (or rates) that reflect current market assessments of the time value of money and risks specific to the liability. The risks specific to the liability are reflected either in the discount rate or in the estimation of the amounts required to settle the obligation, but not both.

(h) Stock and work in progress

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

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

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

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

(i) Leasing and hire purchase

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the company, and hire purchase contracts are capitalised in the balance sheet and are depreciated over the shorter of the lease term and the asset's useful lives. A corresponding liability is recognised for the lower of the fair value of the leased asset and the present value of the minimum lease payments in the balance sheet. Lease payments are apportioned between the reduction of the lease liability and finance charges in the income statement so as to achieve a constant rate of interest on the remaining balance of the liability.

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term. Lease incentives are recognised over the lease term on a straight line basis.

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

(j) Financial Instruments

Cash at bank and in hand

Cash and cash equivalents in the balance sheet comprise cash at banks and in hand and short term deposits with an original maturity date of three months or less.

Short-term debtors and creditors

Debtors and creditors with no stated interest rate and receivable or payable within one year are recorded at transaction price. Any losses arising from impairment are recognised in the income statement in operating expenses.

Notes to the financial statements (continued)

2.4 Significant accounting policies (continued)

(k) Deferred tax

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

(l) Pensions commitments

Defined benefit scheme

The company is a member of the Eaton UK Retirement Benefits Plan and the Eaton Pension Plan, which are multi-employer defined benefit schemes where the assets cannot be apportioned to individual companies. Accordingly, these financial statements account for the pension costs of the schemes as defined contribution schemes and charges are made as incurred.

The service cost of post-retirement medical benefits is accrued in the financial statements over the expected service lives of the relevant employees and is charged to operating profit. The post-retirement benefit liabilities are calculated by the actuarial projection of estimated future benefit payments, discounted at the current rate of return on a high quality corporate bond of equivalent terms and currency to the liability.

The interest on liabilities is included in other finance costs. Actuarial gains/losses are recognised in the statement of comprehensive income.

Defined contribution scheme

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

(m) Foreign currency

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

(n) Share based payments

Incentives in the form of shares are provided to certain employees under share option and share award schemes that are established by the ultimate parent company, Eaton Corporation plc. The fair value of these options and awards at the date of their grant is determined by a valuation as described in note 11 of the group financial statements and is charged over the relevant vesting periods. An amount equivalent to that charged to profit in any period is credited to shareholders funds as a reserve movement reflecting the fact that there is no cash cost to the company of these share based payments.

Where a charge is made by Eaton Corporation plc on the company in respect of share based payments, it is offset against the corresponding amount credited in the period within shareholders' funds. Any charge in excess of this amount is treated as a distribution to Eaton Corporation plc.

Notes to the financial statements (continued)

2.4 Significant accounting policies (continued)

(o) Share based payments (continued)

The cost of equity-settled transactions with employees is measured by reference to the fair value of the equity instruments granted at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined by an external valuer using an appropriate pricing model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the company (market conditions) and non-vesting conditions. No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance conditions are satisfied.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions and of the number of equity instruments that will ultimately vest or in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity.

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period. In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the profit and loss account for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value expensed in the income statement.

3. Turnover

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

Turnover is attributable to continuing activities in the UK and related to sale of goods.

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

Notes to the financial statements (continued)

4. Operating profit/(loss)

This is stated after charging/(crediting):

			2018 £000	2017 £000
Research and development expenditure			12,019	10,317
Depreciation of owned assets (see note 14)			5,959	5,789
Operating lease rentals	–	land and buildings	743	751
	–	others	446	548
Amortisation of goodwill			1,328	1,328
Loss on sale of fixed asset			338	192
Provision for inventory impairments			(418)	(70)
Provision for warranty claims			8,363	7,316
Provision for onerous contracts			-	85
Auditors' remuneration (see note 5)			317	317

5. Auditor's remuneration

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

	2018 £000	2017 £000
Audit of the financial statements	317	317
	317	317

6. Staff costs

(a) Staff costs

Staff costs, including directors' remuneration, were as follows

	2018 £000	2017 £000
Wages and salaries	75,449	65,940
Social security costs	9,373	6,766
Other pension costs (see note 24)	11,917	15,656
	96,739	88,362

Notes to the financial statements (continued)

7. Staff costs (continued)

Staff costs include £141,106 (2017 – £92,673) arising from transactions accounted for as equity-settled share-based payments transactions. The average monthly number of employees during the year was made up as follows:

	2018 No.	2017 No.
Manufacturing	1,934	1,768
Distribution	177	154
Administration	133	177
	2,244	2,099

8. Directors remuneration

No director received, or was due to receive, any emoluments in connection with their services as a director of the company during the year. The fair value of the services received has been assessed at £5,000 per director; therefore Eaton Limited recognises a notional charge of £15,000 (2017: £30,000) for directors' services during the year.

9. Interest receivable and similar income

	2018 £000	2017 £000
On loans and balances due from fellow group undertakings	340	134
Other finance income	67	-
	407	134

Other finance income of £67k relates to the unwinding of a discount on a provision previously held on an onerous contract due to an improvement in the underlying contract financials

10. Interest payable and similar costs

	2018 £000	2017 £000
On balances due to fellow group undertakings	2,369	6,781

11. Other finance costs

	2018 £000	2017 £000
Interest on post-retirement medical benefits liability	121	129

Notes to the financial statements (continued)

12. Taxation

(a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	2018 £000	2017 £000
Current tax:		
UK corporation tax at 19.00% (2017: 19.25%)	-	-
Adjustment in respect of previous periods	-	
Total current tax	-	-
Deferred tax:		
Origination and reversal of temporary differences	-	-
Total change in the deferred tax	-	-
Tax on profit on ordinary activities	-	-

(b) Tax included in statement of total other comprehensive income

The tax credit is made up as follows:

	2018 £000	2017 £000
Deferred tax:		
Actuarial loss on post-retirement benefits	-	-
Total tax credit	-	-

Notes to the financial statements (continued)

12. Taxation (continued)

(c) Factors affecting the total tax charge

The tax assessed on the loss on ordinary activities for the year is higher/lower than the standard rate of corporation tax in the UK of 19.00% (2017: 19.25%). The differences are reconciled below:

	2018	*2017*
	£000	*£000*
(Loss)/Profit on ordinary activities before tax	(6,880)	5,497

Factors affecting the total tax charge

	2018	*2017*
	£000	*£000*
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.00% (2017: 19.25%)	(1,307)	1,058
Expenses not deductible for tax purposes (including goodwill amortisation)	2,031	504
Income not taxable	(244)	(230)
Group relief	1,582	158
De-recognition of deferred tax asset	(2,062)	(1,490)
Total tax expense	-	-

(d) Factors that may affect future tax charges

The main UK corporation tax rate reduced from 20% to the current rate of 19% on 1 April 2017. The Finance Act 2016 includes legislation which will reduce the tax rate further to 17% from 1 April 2020. This became law when the Finance Act 2016 received Royal Assent on 15 September 2016. As all rate reductions were substantively enacted at the balance sheet date, deferred tax has been recognised at the applicable rates when timing differences are expected to reverse.

(e) Deferred tax

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

	2018	*2017*
	£000	*£000*
Included in debtors	-	-
Offset against retirement benefits liabilities (note 23)	-	-
Included in debtors	-	-
Decelerated capital allowances	6,779	5,669
Other timing differences	2,098	1,799
Retirement benefits	2,333	811
Losses	13,332	14,860
Deferred tax not recognised	(24,542)	(23,139)
Provision for deferred tax	-	-

Notes to the financial statements (continued)

13. Intangible fixed assets

	Deferred and capitalised development expenditure	*Goodwill*	*Other intangibles*	*Total*
	£000	*£000*	*£000*	*£000*
Cost				
At 1 January 2018	18,101	26,568	3,100	47,769
At 31 December 2018	18,101	26,568	3,100	47,769
Amortisation				
At 1 January 2018	41	21,853	1,807	23,701
Provided during the year	85	1,328	1,000	2,413
At 31 December 2018	126	23,181	2,807	26,114
Carrying amount				
At 31 December 2018	17,975	3,387	293	21,655
At 31 December 2017	18,060	4,715	1,293	24,068

Goodwill

Goodwill balance was transferred from the Aerospace business which was purchased by Eaton Limited in 2013. It is continued to be amortised evenly over the directors' estimate of its useful economic life of 19 years. Directors believe this is a reasonable estimate based on the projections prepared for the Aerospace business. Amortisation charge for the year is £1,328,000 (2017 - £1,328,000). The remaining amortisation period is 2.6 years.

Development expenditure

In 2008, the Lakeside facility entered into a development contract with one of its customers relating to future advances on a wide body jet platform. An upfront development payment of $2 million was made to this customer during 2008; another $1million paid in 2009; a further $3 million paid in each of 2010, 2011 and 2012; a further $12 million was paid in 2014 and additional $4 million was paid in 2015. This initial investment will be repaid at a predetermined rate once the platform is in use based on the number of hours aircraft are in flight.

Development costs are amortised over the useful lives of 30 years based on the flight hours as this amortisation method reflects the pattern in which the asset's future economic benefits are consumed. Amortisation charge for the year is £84,315 (2017 - £33,950). The remaining amortisation period is 26 years.

Other intangibles

Other intangible assets were transferred from the Aerospace business which was purchased by Eaton Limited in 2013. They are continued to be amortised evenly over the directors' estimate of their useful economic life of 20 years. Directors believe this is a reasonable estimate based on the projections prepared for the Aerospace business. Amortisation charge for the year is £1 million (2017 - £1 million). The remaining amortisation period is 1 year.

Notes to the financial statements (continued)

14. Tangible fixed assets

	Land and buildings *£000*	*Plant and machinery* *£000*	*Fixtures and fittings* *£000*	*Total* *£000*
Cost				
At 1 January 2018	32,269	86,018	11,598	129,885
Additions	1,410	9,202	3,758	14,370
Disposals	(1,159)	(5,460)	(454)	(7,073)
At 31 December 2018	32,520	89,760	14,902	137,182
Depreciation				
At 1 January 2018	14,062	69,243	2,605	85,910
Provided during the year	1,161	3,836	962	5,959
Disposals	(1,150)	(5,216)	(420)	(6,786)
At 31 December 2018	14,073	67,863	3,147	85,083
Carrying amount				
At 31 December 2018	18,447	21,897	11,755	52,099
At 1 January 2018	18,207	16,775	8,993	43,975

Net book value of land and buildings comprises:

	2018 *£000*	*2017* *£000*
Investment property	4,000	3,900
Freehold	14,081	14,081
Short Leasehold (<50 Years)	366	226
	18,447	18,207

Depreciation charge for the year is £5,959,000 (2017 - £5,789,000).

The value of freehold land included in land and buildings amounted to £2,488,000 (2017 - £2,488,000).

The investment property was valued by an independent valuer Jones Lang LaSalle Limited, with a recognised and relevant professional qualification and with recent experience in the location and category of the investment property being valued, as at 31 December 2018, on the basis of fair valued in accordance with the Appraisal and Valuation Manual of The Royal Institution of Chartered Surveyors and on the basis of the IFRS 13 definition of Fair Value as defined ' Fair Value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.'

Notes to the financial statements (continued)

15. Investments: Shares in group undertakings

	Investments in subsidiary companies £000
Cost	
At 1 January 2018	233,590
Additions	-
At 31 December 2018	233,590
Carrying Amount	
At 1 January 2018	233,590
At 31 December 2018	233,590

Details of subsidiary undertaking:

	Registered Office	*Nature of business*	*Proportion of ordinary shares held*
Eaton Truck Components (Pty) Limited	Corner Esander and Osborne Roads, Wadeville, Gauteng1428, South Africa	Wholesale distributors and re-manufacturers of truck transmissions	100%
Eaton Electric Limited	PO Box 554, Abbey Park, Southampton Road, Titchfield, Fareham PO14 9ED, UK	Manufacture, sale and service of electrical products	100%
Ultronics Nordic AB	Kista Science Tower, 16451 Kista, Sweden	Design, manufacture and distribution of electronic hydraulic control systems	100%
Eaton Aerospace Limited	PO Box 554, Abbey Park, Southampton Road, Titchfield, Fareham PO14 9ED, United Kingdom	Dormant	100%
Eaton Industries (UK) Limited	6 Jephson Court, Tancred Close, Queensway, Royal Leamington Spa, Warwickshire, CV31 3RZ, United Kingdom	Dormant	100%

Notes to the financial statements (continued)

16. Stocks

	2018 £000	2017 £000
Raw materials and consumables	46,631	40,937
Work in progress	20,409	16,876
Finished goods and goods for resale	15,890	19,291
	82,930	77,104

Stocks recognised as an expense in the period were £200,943,456 (2017: £200,470,516).

17. Debtors: amounts falling due less than one year

	2018 £000	2017 £000
Trade and other receivables	31,895	46,184
Amounts owed by group undertakings	165,772	-
Prepayments and accrued income	9,444	15,188
Other debtors	49,355	48,081
	256,466	109,453

18. Debtors: amounts falling due after one year

Amounts falling due after more than one year included above are:

	2018 £000	2017 £000
Amounts owed by group undertakings	5,100	167,316

Amounts owed by group undertakings are unsecured, are non-interest bearing, have no fixed date of repayment and are repayable on demand

19. Creditors: amounts falling due within one year

	2018 £000	2017 £000
Trade creditors	14,438	30,401
Amounts owed to group undertakings	477,531	444,235
Taxation and social security	2,823	3,451
Other creditors	58,339	55,809
	553,131	533,896

Notes to the financial statements (continued)

Included in amounts owed to group undertakings are loans repayable with a value of £54.6m and £56m with interest rates of 3.2% and 3.0% respectively. Both loans are repayable within one year. The remaining amounts owed to group undertakings are unsecured and are payable on demand.

20. Provisions for liabilities

	Warranty provision *£000*	*Onerous trading contracts* *£000*	*Total* *£000*
At 1 January 2018	7,503	19,739	27,242
Provided during the year	8,363	-	8,363
Utilised	(4,258)	(2,054)	(6,312)
Released during the year	(4,547)	(12,945)	(17,492)
At 31 December 2018	7,061	4,740	11,801

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

Onerous contract provisions represents management's best estimate of the amount by which the expected benefits from certain specific contracts are lower than the unavoidable cost of meeting its obligations under those contracts. The timeframe within which such provisions unwind varies by contract and is between 1 and 4 years. The onerous contract provisions have been discounted to reflect the net present value of the liabilities.

An amount of £14.9million was utilised or released from the provision in 2018. £10.1million of this provision release was due to an improvement in the underlying financials of the contracts. The remainder provision release of £4.8million relates to a reduction in the number of units due to be produced following the announcement by Airbus to cease production of the A380 airplane from 2021 onwards.

21. Allotted and Issued share capital

	2018 *£000*	*2017* *£000*
Allotted and fully paid		
8,400,004 (2017 – 8,400,004) ordinary shares of 25p each	2,100	2,100

22. Reserves

(a) Share premium account

This reserve records the amount above the nominal value received for shares sold, less transaction costs.

(b) Capital redemption reserve

This reserve records the nominal value of shares repurchased by the company.

(c) Capital contribution reserve

This reserve represents capital contributions from group undertakings.

(d) Share based payment contribution

This reserve is used to recognise the value of equity-settled share-based payments provided to employees of the group as part of their remuneration.

Notes to the financial statements (continued)

23. Related party disclosures

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

24. Pensions and other post-retirement health care benefits

The two defined benefit pension schemes operated by Eaton Limited, the Eaton UK Retirement Benefits Plan (Eaton UK Plan) and the Eaton Pension Plan, merged on 1 April 2016 to create the Eaton UK Pension Plan. In addition, there is a closed section of the Eaton Pension Plan which operates on a defined contribution basis. The assets of each scheme are held separately from those of the company and are administered independently.

The Eaton UK Plan, the Eaton Pension Plan and the Eaton UK Pension Plan are multi-employer Plans and it is the opinion of the directors that it is not possible to separate out, in a reasonable and consistent basis, the assets and liabilities of the Plan between the group companies which contribute to them. The Plans are accounted for on a defined contribution basis within Eaton Limited under FRS 102 para 28.11.

Included in other pension costs are £143,920 (2016: £136,326) in respect of the defined contribution scheme.

Eaton UK Pension Plan

Main assumptions:	*2018 % per annum*	*2017 % per annum*
Discount rate	2.9%	2.59%
Inflation rate (CPI)	2.25%	2.00%
Inflation rate (RPI)	3.25%	3.00%

The liabilities of the Eaton UK pension plan are:

	2018 £000	*2017 £000*
Present value of plan assets/(liabilities)	(8,722)	43,424

Analysis of retirement benefits (liabilities)/assets shown on balance sheet:

	2018 £000	*2017 £000*
Present value of plan (liabilities)/assets	(8,722)	43,424
Restriction on surplus	-	(43,424)
Deferred tax thereon	-	-
Retirement benefits (liabilities)/assets	(8,722)	-

At 31 December 2018, the retirement benefit liability of £8,722,000 has been recognised in the balance sheet of the Company. At 31 December 2017, the retirement benefit asset of £43,424,000 had not been recognised in the balance sheet of the Company as it has been deemed unlikely the asset would be distributable to the Company in the future.

Notes to the financial statements (continued)

24. Pensions and other post-retirement health care benefits

Eaton UK Pension Plan

Changes in the in the fair value of the plan assets during the year:

	2018	*2017*
	£000	*£000*
Net defined assets/(liabilities) at 1 January	43,424	(82,848)
Movement in year:		
Current service costs	(16,865)	(21,763)
Net interest on net defined benefit liability	1,330	(1,606)
Re-measurement effects in OCI	(53,144)	124,300
Plan introductions, changes, curtailments and settlements	(12,728)	-
Employer contributions	33,062	29,244
Administrative cost incurred during the year	(3,801)	(3,903)
Net defined (liabilities)/assets at 31 December	(8,722)	43,424

Post-retirement medical benefits

Post-retirement medical benefits are available to eligible employees who joined Eaton Limited prior to 1 January 1991. The number of current employees eligible to receive healthcare benefits on retirement is 3, (2017 – 3) with an average age of 61 years (2017 – 60) together with 66 (2017 – 66) retired employees or their surviving spouses receiving these benefits.

The ongoing yearly accrual for these benefits is assessed by spreading the future service liability over the remaining expected working life of employees to arrive at a level annual service cost. There are no assets held to back these benefits. The cost of the arrangement is paid on a year-by-year basis from cash flow.

	2018	*2017*	*2016*
	% per annum	*% per annum*	*% per annum*
Main assumptions:			
Discount rate	2.77%	2.59%	2.54%
Medical expenses inflation rate	6.25%	6.00%	6.25%
Inflation rate	3.25%	3.00%	3.25%

The liabilities of the post-retirement medical benefits plan are:

	2018	*2017*	*2016*
	£000	*£000*	*£000*
Present value of plan liabilities	(4,999)	(4,775)	(5,743)

Notes to the financial statements (continued)

24. Pensions and other post-retirement health care benefits (continued)

Post-retirement medical benefits (continued)

Analysis of retirement benefits liabilities shown on balance sheet:

	2018 *£000*	*2017* *£000*
Present value of plan liabilities	(4,999)	(4,775)
Deferred tax thereon	-	-
Retirement benefits liabilities	(4,999)	(4,775)

Analysis of the movement in deficit during the year:

	2018 *£000*	*2017* *£000*
Deficit at beginning of year	(4,775)	(5,743)
Movement in year:		
Current service costs	(7)	(11)
Other finance expense (note 11)	(121)	(129)
Contributions	200	192
Actuarial (loss)/ gain	(296)	916
Deficit at end of year	(4,999)	(4,775)

Analysis of amount recognised in the statement of comprehensive income:

	2018 *£000*	*2017* *£000*
Experience gains / (losses) on plan liabilities	(296)	916
Net gains / (losses) recognised in the statement of comprehensive income	(296)	916

History of experience gains and losses:

	2018	*2017*	*2016*	*2015*
Experience gain/(loss) arising on scheme liabilities – amount (£000)	(296)	916	(1,339)	654
– % of the present value of scheme liabilities	5.9	(19.1)	(23.3)	14.7
Total actuarial gain/(loss) recognised in the statement of comprehensive income: – amount (£000)	(296)	916	(1,339)	654
– % of the present value of the scheme liabilities	5.9	(19.1)	(23.3)	14.7

Notes to the financial statements (continued)

25. Operating lease commitments

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

	Land and buildings 2018 £000	*Land and buildings 2017 £000*	*Other 2018 £000*	*Other 2017 £000*
Not later than one year	504	743	903	446
After one year but not more than five years	1,236	1,912	1,401	765
After five years	-	595	8	-
	1,740	3,250	2,312	1,211

26. Capital commitments

	2018 £000	*2017 £000*
Amounts authorised and contracted but not provided for	3,127	3,570

27. Ultimate parent undertaking and controlling party

The company's immediate parent undertaking is Eaton Holding Limited, a company registered in England and Wales.

The company's ultimate parent undertaking and controlling party is Eaton Corporation plc which is incorporated in Ireland. The only group of which the company is a member and for which group financial statements are prepared is that headed by Eaton Corporation plc. Copies of the 2018 Annual Report of Eaton Corporation plc can be obtained from the following address:

Eaton Center
1,000 Eaton Boulevard
Cleveland
Ohio 44122
USA

28. Events after the reporting period

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