Komatsu UK Limited

Annual report and financial statements

Registered number 01948743

31 March 2020

Contents

Strategic report

The directors present their strategic report for the year ended 31 March 2020.

Principal activities

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

Business model

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

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

Business review

Performance

The results for the year are set out on page 10. The company profit before taxation was £4,226,000 *(2019: £4,790,000)* and reflects a return in line with the contract manufacturing relationship with KEISA.

Turnover for the year amounted to £204,787,000 *(2019: £228,167,000)*. Around two-thirds of this reduction arises due to a decline in sales to the UK and rest of Europe, reflecting a slight softening in demand, reduction in market share and distributor stock reductions. The remainder reflects the winding down of the exceptional sales made to support the USA market.

The balance sheet as at March 2020 indicates that the financial position of the company remains strong, with net assets of £95,804,000 *(2019: £81,849,000)*.

Future Developments

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

Measurement

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

Strategic report *(continued)*

Business review *(continued)*

Principal risks and uncertainties

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

- Volatility in European demand for crawler excavators

The experience of recent years highlights the possible volatilities in demand and in particular the recent Covid-19 shock has been particularly detrimental to performance to date in FY2020. To mitigate this risk, tight control of overhead costs and diversification of product range are the key strategies adopted.

Specifically in relation to the Covid-19 crisis, the company experienced a severe curtailment of customer orders during Q1 2020. In response, the factory ceased production during April and May but was able to ship low volumes of machines from stock. Production restated in June and current expectations are for the second half of the financial year to see a return to more normal levels of activity. Tight management of incoming parts, cost control and use of the Government's job retention scheme has enabled the company to mitigate adverse cashflow impacts and management are confident of maintaining borrowing levels within the available facilities.

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

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

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

Going Concern

The directors have a reasonable expectation that the Company has sufficient financial resources to meet its obligations as they fall due for at least the next twelve months. The Directors have therefore concluded that it is appropriate to prepare these financial statements on the going concern basis. See note 1 for full details.

SECR Report

The energy used by the company (in MWH) in the year ended 31st March 2020 is as follows:

Electricity	5,082
Gas	9,253
Transport – cars	190
Transport - fork-lift tricks	1,220
Transport – excavators	2,141
Total	**17,886**

The associated CO_2 emissions amounted to 2,074 tonnes. The intensity measure used by the company is tonnes of CO_2 / £M production value, where production value represents the conversion costs KUK incurs in its manufacturing operations. On this measure, the intensity value for the year ended 31st March is 0.34.

Energy efficiency measures taken during the year include the installation of LED lighting and motion sensors in the assembly area and the replacement of an aged and inefficient transformer with a new model. The company also switched electricity supply to a certified renewable tariff from 1st April 2019. Accordingly, the CO_2 figure does not include any element in relation to the electricity usage.

Strategic report *(continued)*

Statement relating to the Directors' responsibilities under Section 172 of the Companies Act

The directors of the company must act in accordance with s172 of the UK Companies Act 2006. This requires them to act in good faith in a manner they consider most likely to promote the success of the company for the benefit of its shareholders as a whole, and in doing so have regard to the six key aspects set out below.

1. *The likely consequences of any decisions in the long term:*

- the business operates as set out in the Business Model and Business Review sections above. In doing so a key consideration is the long-term maintenance of product competitiveness, particularly in terms of cost, delivery and quality;
- the company operates a governance framework which seeks to ensure that key strategic decisions are made at Board level after appropriate consideration of the long-term impacts. This framework is evaluated against a Komatsu group entity level control checklist each year;
- the defined benefit pension scheme represents the company's most significant and long-term liability. The Board works closely with the Trustee of the scheme to ensure that it is appropriately funded on a basis which does not expose the company to significant financial risk;

2. *The interests of the company's employees:*

- the company operates under the Komatsu Worldwide Code of Business Conduct ("KWCBC"), which staff in management positions must pledge to operate in accordance with. This code includes significant direction in relation to employee engagement, development, safety and welfare;
- elected employee representatives for an Advisory Council which meets with management on monthly basis to discuss matters (raised by either side) impacting employees;

3. *The need to foster the company's business relationships with suppliers, customers and others:*

- the KWCBC defines Komatsu's corporate value as "the total sum of trust given to us by society and all stakeholders" and directs all Komatsu companies to behave accordingly;
- the company aims to meet regularly with suppliers to build open, constructive and long-term business relationships. Staff are encouraged to share best practice in aspects such as quality and health and safety, and a vendor rating system provides suppliers with feedback on all aspects of their performance. The company holds an annual suppliers' day, at which it explains the company's status and plans insofar as they will impact suppliers;
- the company sells all its output to KEISA (see Business Review above) and takes direction from KEISA in relation to customer and product related issues. However, staff also frequently visit KEISA's distributors, and their retail customers' jobsites, in order to understand customer feedback in relation to products and service levels firsthand. Distributors are encouraged to bring their customers to the company's site to see the production process and test the products, which gives management opportunity to gain additional insight into customers' requirements;

4. *The impact of the company's operations on the community and environment:*

- the KWCBC states that Komatsu companies must be seen to be responsible corporate citizens;
- the company has gained the ISO 14001-2015 environmental standard, which requires it to operate an effective system of controls to manage and monitor its impact on the environment;
- engagement with the community takes the form of maintaining an active and open relationship with Gateshead Council and local and national business groups. The company actively supports "STEM" activities involving local schoolchildren and university students and makes office facilities available to a local charity free of charge;

5. *The desirability of the company maintaining a reputation for high standards of business conduct:*

- this is the cornerstone of the KWCBC. It emphasises total compliance with the "rules" of business conduct, noting that compliance is required in all circumstances, ignorance is not an excuse for failure to comply and failure to comply must never be covered up. A global whistleblowing hotline and whistleblowing policy are in place to encourage reporting of non-compliance;
- the company has a control committee and a risk management committee which consider all aspects of compliance and how the company is discharging its obligations in relation thereto;

Strategic report *(continued)*

Statement relating to the Directors' responsibilities under Section 172 of the Companies Act *(continued)*

6. *The need to act fairly between members of the company:*
- the company has one shareholder which in turn is wholly owned by the ultimate parent company (see notes 25 and 26);
- within the constraints of UK company law, the company's dealings with its member are undertaken in accordance with Komatsu Group rules.

By order of the board

P. Blanchard

P. Blanchard
Director

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

22nd July 2020

Directors' report

The directors present their directors' report and financial statements for the year ended 31 March 2020.

Financial instruments

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

The financial risk management policy in respect of foreign currency exposure is referred to in the Strategic report. The Company arranges a system of quarterly hedges, based on forecast transactions for the subsequent quarter, using a combination of forward exchange contracts and currency options. The forward foreign exchange contracts in place at the year end to cover the April 20 to June 20 quarter's transactions are detailed in note 21.

Proposed dividend

Dividends paid during the year comprise a final dividend of £1,156,000 in respect of the previous year ended 31 March 2019 *(2019: a final dividend of £973,000 in respect of the year ended 31 March 2018).*

The directors have proposed a final ordinary dividend in respect of the current financial year of £1,026,000. This has not been included within creditors as it was not approved before the year end.

Directors

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

P Howe
S Reid
P Blanchard
R Williams
H Tsuji
M Morishita
T Bowman
T Furukoshi

Employees

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

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

Political contributions

The company made no political donations nor incurred any political expenditure during the year *(2019: £nil).*

Disclosure of information to auditor

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

Directors' report *(continued)*

Other information

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

Auditor

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

By order of the board

S Reid
Director

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

22nd July 2020

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

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

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

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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

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

KPMG

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

Opinion

We have audited the financial statements of Komatsu UK Limited ("the company") for the year ended 31 March 2020 which comprise the Profit and Loss Account, and Other Comprehensive Income, Balance Sheet, Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

Strategic report and directors' report

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

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

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

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

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 7, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

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

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

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

5th August 2020

Profit and Loss Account and Other Comprehensive Income

for the year ended 31 March 2020

	Note	2020 £000	2019 £000
Turnover	2	**204,787**	228,167
Net operating expenses	3	**(201,543)**	(224,015)
Operating profit		**3,244**	4,152
Interest receivable and similar income	8	**1,255**	816
Interest payable and similar expenses	9	**(273)**	(178)
Profit before taxation	3-9	**4,226**	4,790
Tax on profit	10	**(1,030)**	(938)
Profit for the financial year	20	**3,196**	3,852

Other comprehensive income

	Note	2020 £000	2019 £000
Remeasurement of the net defined benefit asset	18	**15,505**	4,142
Income tax on other comprehensive income	10	**(3,230)**	(704)
Other comprehensive income for the year, net of income tax		**12,275**	3,438
Total comprehensive income for the year		**15,471**	7,290

Balance Sheet
at 31 March 2020

	Note	2020 £000	2020 £000	2019 £000	2019 £000
Fixed assets					
Tangible assets	*12*		**12,411**		11,101
Current assets					
Stocks	*13*	**68,442**		87,619	
Debtors	*14*	**22,860**		50,479	
Cash at bank and in hand		**12,327**		1,077	
		103,629		139,175	
Creditors: amounts falling due within one year	*15*	**(47,571)**		(84,317)	
Net current assets			**56,058**		54,858
Total assets less current liabilities			**68,469**		65,959
Provisions for liabilities					
Deferred tax liability	*16*	**(7,828)**		(4,076)	
Other provisions	*17*	**(5,075)**		(4,158)	
Pensions and similar obligations	*18*	**(2,942)**		(2,624)	
			(15,845)		(10,858)
Pension assets	*18*		**43,180**		26,388
Net assets			**95,804**		81,489
Capital and reserves					
Called up share capital	*19*		**23,810**		23,810
Profit and loss account	*20*		**71,994**		57,679
Shareholders' funds			**95,804**		81,489

These financial statements were approved by the board of directors on 22nd July 2020 and were signed on its behalf by:

P. Blanchard.

P Blanchard
Director

S Reid
Director

Company registered number: 01948743

Statement of Changes in Equity

	Called up share capital £000	Profit and loss account £000	Total equity £000
Balance at 1 April 2018	23,810	51,362	75,172
Total comprehensive income for the year			
Profit or loss	-	3,852	3,852
Other comprehensive income	-	3,438	3,438
Total comprehensive income for the year	-	7,290	7,290
Transactions with owners, recovered directly in equity			
Dividends	-	(973)	(973)
Total contributions being and distributed for owners	-	(973)	(973)
Balance at 31 March 2019	23,810	57,679	81,489
Balance at 1 April 2019	**23,810**	**57,679**	**81,489**
Total comprehensive income for the year			
Profit or loss	-	**3,196**	**3,196**
Other comprehensive income	-	**12,275**	**12,275**
Total comprehensive income for the year	-	**15,471**	**15,471**
Transactions with owners, recorded directly in equity			
Dividends	-	**(1,156)**	**(1,156)**
Total contributions by and distributions to owners	-	**(1,156)**	**(1,156)**
Balance at 31 March 2020	**23,810**	**71,994**	**95,804**

Notes

(forming part of the financial statements)

1 Accounting policies

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

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

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

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

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

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

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

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

Measurement convention

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

Going concern

As of the date of this Annual Report, the directors have prepared forecasts for Komatsu UK Limited ("the Company") based on current trading conditions. Whilst the Company's trading and cash flow forecasts have been prepared using current trading assumptions, the operating environment presents a number of challenges which could negatively impact the actual performance achieved. The principal risks noted below are not all the risks faced by the Company but are those risks which the Entity perceives as those which could have a significant impact on the Company's performance and future prospects.

The principal risks facing the business and the valuation of its assets are the impact of Covid-19, Brexit and dependency on non-repayment of amounts due:

- Covid-19 has had an impact on the business and presents an ongoing business risk. The Company has sought to analyse, understand and where possible mitigate the impact of Covid-19 on the business. The peak impact on the business took place in April and May 2020. Some staff were able to work from home during this time with the majority being put onto furlough. From the end of May 2020 staff have been phased back to work whilst following government guidelines for social distancing.

Notes *(continued)*

1 Accounting policies *(continued)*

Going concern (continued)

- Following the United Kingdom's departure from the European Union on 31 January 2020 (Brexit day), the United Kingdom has entered a transition period until 31 December 2020. This means that although the United Kingdom ceases to be an EU member, the trading relationship remains the same and the United Kingdom continues to follow the EU's rules, such as accepting rulings from the European Court of Justice. As a result of Brexit, it is possible that there will be greater restrictions on imports and exports between the United Kingdom and the European Union countries and increased regulatory complexities. Although these changes may adversely affect the Company's operations and financial results, the products sold by the Company are expected to remain in demand within the coming months and years.

Since the year end the company has agreed revised financing arrangements with its fellow subsidiary Komatsu Europe Coordination Centre NV (KECC). Under these arrangements there is a committed facility of €35m and an uncommitted facility of €20m and these facilities are in place for an initial 18-month period from 2nd July 2020. The forecasts have been prepared considering these revised facilities.

In considering these risks, the directors have prepared financial forecasts for a period of at least twelve months from the date of the approval of these accounts. In addition, the directors have considered severe but plausible downside sensitivity scenarios to their projection to quantify the potential downside risks to financial performance. The directors have also considered mitigating actions within the control of management.

On this basis, and having considered the risks and uncertainties described above, the directors have a reasonable expectation that the Company has sufficient financial resources to meet its obligations as they fall due for at least the next twelve months. The Directors have therefore concluded that it is appropriate to prepare these financial statements on the going concern basis.

Foreign currency

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

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

Classification of financial instruments issued by the Company

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

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

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

Notes *(continued)*

1 Accounting policies *(continued)*

Classification of financial instruments issued by the Company (continued)

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

Basic financial instruments

Trade and other debtors / creditors

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

Interest-bearing borrowings classified as basic financial instruments

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

Other financial instruments

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

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

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

Derivative financial instruments and hedging

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

Tangible fixed assets

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

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

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

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

Notes *(continued)*

1 Accounting policies *(continued)*

Tangible fixed assets (continued)

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

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

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

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

Government grants

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

Impairment excluding stocks and deferred tax assets

Financial assets (including trade and other debtors)

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

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

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than stocks and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU").

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

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

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

Notes *(continued)*

1 Accounting policies *(continued)*

Stocks

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

Employee benefits

Defined contribution plans and other long term employee benefits

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

Defined benefit plans

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

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

Changes in the net defined benefit liability arising from employee service rendered during the period, net interest on net defined benefit liability, and the cost of plan introductions, benefit changes, curtailments and settlements during the period are recognised in profit or loss. Remeasurement of the net defined benefit liability/asset is recognised in other comprehensive income in the period in which it occurs.

Termination benefits

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

Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

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

Turnover

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

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

Notes *(continued)*

1 Accounting policies *(continued)*

Expenses

Operating lease

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

Interest receivable and Interest payable

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

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

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

Taxation

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

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

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

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

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

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

Notes *(continued)*

2 Turnover

The analysis of turnover by category is as follows

	2020 £000	2019 £000
Sale of goods	**204,672**	227,900
Rendering of services	**115**	267
	204,787	228,167

The analysis of turnover by geographical destination is as follows

	2020 £000	2019 £000
United Kingdom	**34,664**	51,819
Rest of Europe	**138,695**	138,607
United States of America	**28,630**	36,199
Rest of World	**2,798**	1,542
	204,787	228,167

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

3 Net operating expenses

	2020 £000	2019 £000
Change in stocks of finished goods and work in progress	**7,851**	3,246
Other operating income (note 4)	**(5,241)**	(5,934)
Raw materials and consumables	**149,068**	177,601
Other external charges	**13,211**	14,537
Staff costs (note 6)	**24,257**	25,735
Depreciation of tangible fixed assets (note 12)	**2,287**	2,040
Other operating charges	**10,110**	6,790
	201,543	224,015

4 Other operating income

	2020 £000	2019 £000
Government grants	**-**	192
Income from supply of staff to other group companies	**2,937**	2,844
Income from design services	**1,974**	2,587
Other income	**330**	311
	5,241	5,934

Notes *(continued)*

5 Expenses and auditor's remuneration

Included in profit/loss are the following:

	2020 £000	2019 £000
Impairment loss on inventories	-	1,400
Reversal of impairment loss on inventories	(330)	-
Operating lease charges	259	240
Depreciation	2,287	2,040
Net exchange losses	2,014	-
Net exchange gains	-	(1,519)
Loss on disposal of fixed assets	34	2

Auditor's remuneration:

	2020 £000	2019 £000
Audit of these financial statements	72	71
Amounts receivable by the auditor and its associates in respect of:		
Other services pursuant to such legislation	16	15
All other services	2	1

6 Staff numbers and costs

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

	Number of employees 2020	2019
Production	265	267
Other factory staff	13	12
Administration and other staff	158	151
Staff supplied to other group companies	30	28
	466	458

The aggregate payroll costs of these persons were as follows:

	2020 £000	2019 £000
Wages and salaries	18,628	19,654
Social security costs	2,230	1,890
Contributions to defined contribution plans (note 18)	1,368	1,101
Expenses related to defined benefit plans (note 18)	2,031	3,090
	24,257	25,735

Notes *(continued)*

7 Remuneration of directors

	2020 £000	2019 £000
Directors' emoluments	1,467	1,192

The emoluments of the highest paid director were £455,000 *(2019: £481,000).* He is a member of a defined benefit scheme, under which his accrued pension at the year end was £100,888 *(2019: £172,000).*

During the year the highest paid director transferred a proportion of his defined benefit pension entitlement out of the company's defined benefit pension scheme as a cash equivalent transfer value, which explains the reduction in accrued pension figures set out above.

	Number of directors 2020	2019
Retirement benefits are accruing to the following number of directors under:		
Defined benefit schemes	5	5

8 Interest receivable and similar income

	2020 £000	2019 £000
Bank interest receivable and similar income	9	9
Net gain on derivative financial instruments designated as fair value through profit or loss (note 21)	646	241
Net interest income on net defined benefit plan assets (note 18)	600	566
	1,255	816

9 Interest payable and similar expenses

	2020 £000	2019 £000
Interest payable on loans from group undertakings	273	178
	273	178

Notes *(continued)*

10 Taxation

Tax expense recognised in the profit and loss account

	2020		2019	
	£000	£000	£000	£000
UK corporation tax				
Current tax on income for the period	472		1,011	
Adjustments in respect of prior periods	36		62	
Total current tax		508		1,073
Deferred tax (see note 16)				
Origination of timing differences	319		(126)	
Adjustments in respect of previous years	7		(9)	
Effect of increase in tax rate	196		-	
Total deferred tax		522		(135)
Total tax expense recognised in the profit and loss account		1,030		938

Tax expense/(credit) recognised in other comprehensive income

	2020		2019	
	£000	£000	£000	£000
Current tax				
Current tax deductions allocated to actuarial losses		-		-
Total current tax		-		-
Deferred tax (see note 16)				
Origination and reversal of timing differences	3,230		704	
Impact of change in tax rate	-		-	
Total deferred tax		3,230		704
Total tax expense/(credit) recognised in other comprehensive income		3,230		704

Notes *(continued)*

10 Taxation *(continued)*

Reconciliation of effective tax rate

	2020 £000	2019 £000
Profit for the year	**3,196**	3,852
Total tax expense	**1,030**	938
Profit excluding taxation	**4,226**	4,790
Tax using the UK corporation tax rate of 19% *(2019: 19%)*	**803**	910
Tax rate changes	**196**	15
Non-deductible expenses	**18**	18
Income not taxable	**(30)**	(58)
Under provided in prior years	**43**	53
Total tax expense recognised in profit or loss	**1,030**	938

Factors that may affect future tax charges

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

11 Dividends

The aggregate amount of dividends comprises:

	2020 £000	2019 £000
Final dividends paid in respect of prior year but not recognised as liabilities in that year	**1,156**	973
Interim dividends paid in respect of the current year	-	-
	1,156	973

The aggregate amount of dividends proposed and not recognised as liabilities as at the year end is £1,026,000 *(2019: £1,156,000)*.

Notes *(continued)*

12 Tangible fixed assets

	Freehold land and buildings £000	Plant and machinery £000	Fixtures and fittings £000	Total £000
Cost				
Balance at 1 April 2019	23,313	45,171	658	69,142
Additions	1,045	2,494	64	3,603
Disposals	(11)	(1,238)	-	(1,249)
Balance at 31 March 2020	24,347	46,427	722	71,496
Depreciation				
Balance at 1 April 2019	18,409	39,152	480	58,041
Charge for year	679	1,547	61	2,287
On disposals	(6)	(1,237)	-	(1,243)
Balance at 31 March 2020	19,082	39,462	541	59,085
Net book value				
At 1 April 2019	4,904	6,019	178	11,101
At 31 March 2020	**5,265**	**6,965**	**181**	**12,411**

13 Stocks

	2020 £000	2019 £000
Raw materials and consumables	**38,802**	50,128
Work in progress	**3,237**	14,099
Finished goods and goods for resale	**26,403**	23,392
	68,442	87,619

Raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales in the year amounted to £156,919,000 *(2019: £180,847,000)*.

Stock is stated after provisions for impairment of £2,129,000 *(2019: £2,769,000)*.

Notes *(continued)*

14 Debtors

	2020 £000	2019 £000
Trade debtors	**123**	250
Amounts owed by group undertakings	**13,946**	29,612
Other debtors	**7,784**	20,169
Derivative financial instruments (note 21)	**973**	327
Prepayments and accrued income	**34**	121
	22,860	50,479
Due within one year	**22,860**	50,479
Due after more than one year	**-**	-
	22,860	50,479

Trade debtors is stated after provisions for impairment of £nil *(2019: £nil).*

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

Other debtors include net VAT recoverable of £7,450,000 *(2019: £19,936,000).*

15 Creditors: amounts falling due within one year

	2020 £000	2019 £000
Trade creditors	**4,884**	11,964
Funding advances from group undertakings	**29,544**	20,370
Amounts owed to group undertakings	**4,462**	36,215
Corporation tax payable	**507**	1,586
Other taxation and social security	**833**	624
Accruals and deferred income	**7,341**	13,558
	47,571	84,317

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

Notes *(continued)*

16 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2020	2019	**2020**	2019	**2020**	2019
	£000	£000	**£000**	£000	**£000**	£000
Accelerated capital allowances	**-**	-	**(289)**	(120)	**(289)**	(120)
Employee benefits	**-**	-	**(7,468)**	(3,880)	**(7,468)**	(3,880)
Derivative financial instruments	**-**	-	**(71)**	(76)	**(71)**	(76)
Net tax assets/(liabilities)	**-**	-	**(7,828)**	(4,076)	**(7,828)**	(4,076)

Movement in deferred tax during the year

	1 April 2019 £000	Recognised in profit and loss account £000	Recognised in other comprehensive income £000	31 March 2020 £000
Accelerated capital allowances	(119)	(170)	-	(289)
Employee benefits	(4,040)	(375)	(3,230)	(7,645)
Derivative financial instruments	(76)	5	-	(71)
Other	159	18	-	177
	(4,076)	(522)	(3,230)	(7,828)

Movement in deferred tax during the prior year

	1 April 2018 £000	Recognised in profit and loss account £000	Recognised in other comprehensive income £000	31 March 2019 £000
Accelerated capital allowances	(74)	(45)	-	(119)
Employee benefits	(3,344)	8	(704)	(4,040)
Derivative financial instruments	(89)	13	-	(76)
Derivative financial instruments	-	159	-	159
	(3,507)	135	(704)	(4,076)

Notes *(continued)*

17 Provisions

	Warranty provision £000	Other £000	Total £000
Balance at 1 April 2019	4,093	65	4,158
Utilised during year	(1,181)	(40)	(1,221)
Charge to the profit and loss account for the year	2,138	0	2,138
Balance at 31 March 2020	**5,050**	**25**	**5,075**

Warranty provision

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

Other provision

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

18 Employee benefits

Defined contribution pension scheme

The Company operates a defined contribution pension scheme. The pension cost charge for the period represents contributions payable by the Company to the scheme and amounted to £1,368,000 *(2019: £1,101,000)*.

Contributions amounting to £ nil *(2019: £81)* were payable to the scheme at the year end.

Defined benefit pension scheme

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

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

The valuation used for FRS 102 disclosures has been based on the formal actuarial valuation as at 31 March 2019, and was updated for FRS 102 purposes to 31 March 2020 by a qualified independent actuary. The present values of the defined benefit obligation, the related current service cost and any past service costs were measured using the projected unit credit method.

Employer contributions in the accounting period amounted to £2,400,000 *(2019: £2,473,000)*. Basic contributions were paid at a rate of 26.3% *(2019: 26.3%)* of pensionable salaries and amounting to £1,309,000 *(2019: £1,354,000)*. Employer pensions paid through salary sacrifice amounted to £341,000 *(2019: £369,000)*. In addition, the Company made a special additional contribution of £750,000 *(2019: £750,000)*.

Notes *(continued)*

18 Employee benefits *(continued)*

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

Net pension asset

	2020 £000	2019 £000
Defined benefit obligation	**(113,220)**	(136,605)
Plan assets	**156,400**	162,993
Net pension asset	**43,180**	26,388

Movements in present value of defined benefit obligation:

	2020 £000	2019 £000
At 1 April	**(136,605)**	(133,858)
Current service cost	**(1,828)**	(2,860)
Interest expense	**(3,118)**	(3,564)
Remeasurement: actuarial gains/(losses)	**15,057**	123
Contributions by members	**(132)**	(146)
Benefits paid	**13,406**	3,700
At 31 March	**(113,220)**	(136,605)

Movements in fair value of plan assets:

	2020 £000	2019 £000
At 1 April	**162,993**	156,591
Interest income	**3,781**	4,213
Remeasurement: return on plan assets less interest income	**500**	3,270
Contributions by employer	**2,400**	2,473
Contributions by members	**132**	146
Benefits paid	**(13,406)**	(3,700)
At 31 March	**156,400**	162,993

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

	2020 £000	2019 £000
Current service cost	**(1,828)**	(2,860)
Net interest on net defined benefit asset	**663**	649
Total expense recognised in profit or loss	**(1,165)**	(2,211)

Notes *(continued)*

18 Employee benefits *(continued)*

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

	2020 £000	2019 £000
Net operating expenses - staff costs	**(1,828)**	(2,860)
Interest receivable and similar income	**663**	649
	(1,165)	(2,211)

Gains and losses recognised directly in equity:

	2020 £000	2019 £000
Remeasurement gains/(losses) recognised in the year	**15,557**	3,393

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

	2020 Fair value £000	2019 Fair value £000
Equities	**-**	-
Government bonds	**56,416**	54,927
Corporate bonds	**95,199**	98,187
Property	**2,749**	2,613
Other	**2,036**	7,266
	156,400	162,993
Interest income	**3,781**	4,213
Remeasurement: return on plan assets less interest income	**500**	3,270
Actual return on plan assets	**4,281**	7,483

At 31 March 2020, none of the fair value of scheme assets related to self-investment.

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

	2020 %	2019 %
Discount rate	**2.4%**	2.4%
Rate of increase to pensions in payment	**2.6%**	3.3%
Rate of increase to pensions in deferment	**1.9%**	2.5%
Future salary increases	**2.6%**	3.5%
Inflation (RPI)	**2.6%**	3.5%
Inflation (CPI)	**1.9%**	2.5%

Notes *(continued)*

18 Employee benefits *(continued)*

In valuing the liabilities of the pension fund at 31 March 2020, mortality assumptions have been made as indicated below. If life expectancy had been changed to assume that all members of the fund lived for one year longer, the value of the reported liabilities at 31 March 2020 would have increased by £3,308 million.

Mortality assumptions

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are that a member currently aged 65 will live on average for a further 21.5 years if they are male and for a further 23.5 years if they are female. For a member currently aged 45, the assumptions are that they will live on average for a further 23.0 years after retirement at 65 if they are male and for a further 25.5 years after retirement at 65 if they are female.

The company expects to contribute approximately £1.8 million to its defined benefit plans in the next financial year.

Employer Financed Retirement Benefit Scheme (EFRBS)

During 2012 an employee opted out of the Komatsu UK Staff Pension Scheme, with future benefits being provided via an unfunded arrangement. Under this arrangement benefits will be provided in relation to future increases in salary that would have applied to past service had the employee remained in the Komatsu UK Staff Pension Scheme. The cost relating to this arrangement, included within operating profit, was £203,000 *(2019: £230,000)*.

The present value of the unfunded defined benefit obligation is based on calculations carried out by a qualified independent actuary to take account of the requirements of FRS 102 in order to assess the liability at 31 March 2020.

Pension liability

	2020 **£000**	2019 £000
Present value of unfunded defined benefit obligation	**(2,942)**	(2,624)

Movements in present value of the unfunded defined benefit obligation:

	2020 **£000**	2019 £000
At 1 April	**(2,624)**	(3,060)
Current service cost	**(203)**	(230)
Interest expense	**(63)**	(83)
Remeasurement: actuarial gain/(losses)	**(52)**	749
At 31 March	**(2,942)**	(2,624)

Expense recognised in the profit and loss account:

	2020 **£000**	2019 £000
Current service cost	**(203)**	(230)
Net interest on net defined benefit liability	**(63)**	(83)
Total expense recognised in profit or loss	**(266)**	(313)

Notes *(continued)*

18 Employee benefits *(continued)*

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

	2020 £000	2019 £000
Net operating expenses - staff costs	**(203)**	(230)
Interest receivable and similar income	**(63)**	(83)
	(266)	(313)

Gains and losses recognised directly in equity:

	2020 £000	2019 £000
Remeasurement gains/(losses) recognised in the year	**(52)**	749

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

	2020 %	2019 %
Discount rate	**2.4%**	2.4%
Rate of increase to pensions in payment	**2.6%**	3.3%
Future salary increases	**0.0%**	0.0%
Inflation (RPI)	**2.6%**	3.5%
Inflation (CPI)	**1.9%**	2.5%

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

If life expectancy had been changed to assume that the member lived for one year longer, the value of the reported liabilities at 31 March 2020 would have increased by £0.075 million.

19 Called up share capital

	2020 £000	2019 £000
Allotted, called up and fully paid		
23,810,000 Ordinary shares of £1 each	**23,810**	23,810

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

Dividends

Dividends paid during 2020 comprised a final dividend of £1,156,000 in respect of the year ended 31 March 2019. No dividends was paid in respect of the current year. The directors have proposed a final ordinary dividend in respect of the current financial year of £1,026,000. This has not been included within creditors as it was not approved before the year end.

Notes *(continued)*

20 Reserves

	Profit and loss account 2020 £000	2019 £000
Balance at 1 April	**57,679**	51,362
Profit for the year	**3,196**	3,852
Dividends on shares classified in shareholders' funds	**(1,156)**	(973)
Remeasurement of the net defined benefit assets	**15,505**	4,142
Income tax on other comprehensive income	**(3,230)**	(704)
Balance at 31 March	**71,994**	57,679

21 Financial instruments

Financial instruments measured at fair value

	2020 £000	2019 £000
Financial assets at fair value through profit or loss		
- Derivative financial instruments	**973**	327

Derivative financial instruments – Forward contracts

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

	2020 Currency	2020 Nominal value in currency '000	2020 Fair value	2019 Currency	2019 Nominal value in currency '000	2019 Fair value £000
Sell	**EUR**	**54,121**	**1,213**	EUR	61,605	123
Buy	**EUR**	**8,376**	**(122)**	EUR	3,710	1
Sell	**JPY**	**264,043**	**23**	JPY	63,485	(3)
Buy	**JPY**	**1,125,118**	**(48)**	JPY	3,196,372	139
Sell	**USD**	**5,419**	**31**	USD	2,767	59
Buy	**USD**	**6,652**	**(124)**	USD	925	8
			973			327

Changes in the fair value of the above non-hedging currency derivatives amounted to a gain of £646,000 *(2019: £241,000)* and have been recognised in the profit and loss account in the year (note 8).

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

Notes *(continued)*

22 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2020 £000	2019 £000
Less than one year	**225**	221
Between one and five years	**66**	258
More than five years	**-**	-
	291	479

23 Commitments

Capital commitments

The Company's contractual commitments to purchase fixed assets at the year end were £3,008,000 *(2019: £854,000).*

24 Related party disclosures

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

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

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

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

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

Notes *(continued)*

26 Accounting estimates and judgements

In the preparation of the financial statements, it is necessary for the management of the company to make judgements, estimates and assumptions that may affect the application of accounting policies and the reported amounts of assets and liabilities, and income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The key areas requiring the use of estimates and judgements which may significantly affect the financial statements are considered to be:

Stock recoverability

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

Estimation uncertainty of the defined benefit pension scheme

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

Provision estimation

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