Leoni Temco Limited

Report and Financial Statements

31 December 2018

Directors
A-J Harkort
B Cutts

Secretary
K M B Merkitt FMAAT

Auditors
Ernst & Young LLP
The Paragon
Counterslip
Bristol BS1 6BX

Bankers
HSBC Bank Plc
City Corporate Banking Centre
1st Floor, 60 Queen Victoria Street
London EC4N 4TR

Registered Office
Whimsey Industrial Estate
Cinderford
Gloucestershire GL14 3HZ

Strategic report

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

Principal activity and review of the business

The company's principal activity is wire-drawing, stranding and plating.

The year started well with a strong January demand for our products, particularly Nickel Plated automotive alloys and again in Q2 and Q3 of the year. This ensured that the production team remained on a 6-day working pattern. In Q4 we witnessed a slow down to year end which unfortunately impacted on our end of year sales figures achieving lower than the previous year. Continuous improvement activities in 2018 remained in the form of Kaizen (a Japanese business philosophy of continuous improvement of working practices and efficiency) and we continue our participation in the Leoni Kaizen Production System (KPS) which has led to best practice daily shop floor management.

Cost control and efficiency management activities continue to counter-balance reduced metal price effects however exchange rate fluctuations had a negative impact to the value of -£70,000 this year compared to 2017.

Product and process innovation in the automotive & aerospace solutions sectors remain a high priority in line with our Division and Business Group strategy.

Successful preparation in 2017 for the transition to the 2015 Quality 9001 and Environmental 14001 standard meant we passed the planned external TUV audits during February 2018.

Continual development of our EHS Management Systems are proving very effective in support of our objectives.

Principal risks and uncertainties

The potential impact of Brexit and the decision to leave the European Union has resulted in wider economic uncertainty. With over 80% of Leoni Temco's business being exported to Europe, the largest uncertainty for the company is with regard to exchange rates and potential duty charges for European countries from either WTO tariffs or a "no deal scenario".

The management receive regular updates through their involvement with the South West regional board of the EEF (MakeUK) who work closely with government on issues effecting manufacturing in the UK.

Currency risk

Currency risk is managed via forward contracts within the wider Leoni Group.

By order of the Board

Secretary
Date 3/5/19

Registered No. 00434420

Directors' report

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

Results and dividends

The profit for the year after taxation amounted to £413,000 (2017 – profit of £625,000). A dividend of £3.3m was paid during the year (2017 – nil). The directors do not recommend a further dividend.

Future developments

To counter the uncertainties in the economic and financial environment, positive free cash flow, sustainable growth and the pursuit of service excellence remain vital objectives for the Company in 2019 and for the foreseeable future.

The well-established trend towards miniaturisation and energy-efficient conductor and cable applications at our customers continues to drive the Company's products and weight-saving solutions based on copper-alloys continue to be part of the Leoni Temco market offering.

Leoni Temco continues to support the achievement of the Leoni WCS Division strategy to move towards becoming a solution provider for our customers through participation in Business Group teams, targets and objectives.

Going concern

The Company's business activities, together with the factors likely to affect its future development and position, are set out above.

The Company is expected to generate positive cash flows on its activities for the foreseeable future. The Company participates in the Leoni Group's centralised Treasury arrangements and so shares banking arrangements with its Parent and fellow subsidiaries.

The directors, having assessed the responses of the directors of the Leoni Draht GmbH, have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the Leoni Group to continue as a going concern and/or its ability to continue with its current banking arrangements.

On the basis of their assessment of the Company's financial position, of the enquiries made of the directors of Leoni Draht GmbH and in particular given the future-proofing provided by strategic customer and product portfolio development in recent years, the Company's directors have a reasonable expectation that the Company will be able to continue in operational existence for the foreseeable future. The Company's directors have received a letter of support from the directors of Leoni Draht GmbH stating that they will ensure that the Company is able to meet its obligations as they fall due for the foreseeable future. Thus, the Company's directors continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Directors

The directors who served the company during the year were as follows:

A-J Harkort
B Cutts

Directors' liabilities

The company has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in section 234 of the Companies Act

Directors' report (continued)

2006. Such qualifying third-party indemnity provision remains in force as at the date of approving the directors' report.

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.

Auditors

Ernst & Young LLP were appointed as auditor of the Company for the year ended 31 December 2018. Ernst & Young LLP are not seeking reappointment as auditors for the next reporting period.

By order of the Board

Secretary
Date 3/5/18

Statement of directors' responsibilities

The directors are responsible for preparing the annual 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). 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; 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 Leoni Temco Limited

Opinion

We have audited the financial statements of Leoni Temco Limited for the year ended 31 December 2018 which comprise Profit and Loss Account, the Statement of Changes in Equity, the Balance Sheet and the related notes 1 to 17, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

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

Basis for opinion

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

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

Conclusions relating to going concern

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

- 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.

Independent auditors' report (continued)

to the members of Leoni Temco Limited

Other information

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

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

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

We have nothing to report in this regard.

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 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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

Ernst & Young LLP

Eleri James (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Bristol
Date 7th May 2019

Profit and loss account

for the year ended 31 December 2018

	Notes	2018 £000	2017 £000
Turnover	2	15,886	16,667
Cost of sales		(14,217)	(14,910)
Gross Profit		1,669	1,757
Other operating expenses:			
Distribution costs		(510)	(512)
Administrative expenses		(591)	(413)
Operating Profit	3	568	832
Interest payable and similar charges	6	(55)	(55)
Profit before taxation		513	777
Tax Charge	7	(100)	(152)
Profit for the financial year and total comprehensive income		413	625

All amounts relate to continuing activities.

Statement of changes in equity

for the year ended 31 December 2018

	Share capital *£000*	*Profit and loss account* *£000*	*Total share-holders' funds* *£000*
At 1 January 2017	36	2,327	2,363
Profit for the year and total comprehensive income	–	625	625
At 1 January 2018	36	2,952	2,988
Profit for the year and total comprehensive income	–	413	413
Dividend Paid 2018	–	(3,300)	(3,300)
At 31 December 2018	36	65	101

Balance sheet

at 31 December 2018

	Notes	*2018* *£000*	*2017* *£000*
Fixed assets			
Intangible assets	8	9	18
Tangible assets	9	2,120	2,113
		2,129	2,131
Current assets			
Stocks	10	2,511	2,299
Debtors	11	1,890	3,909
		4,401	6,208
Creditors: amounts falling due within one year	12	(6,283)	(5,196)
Net current liabilities		(1,882)	1,012
Total assets less current liabilities		247	3,143
Provisions for liabilities			
Deferred taxation	7(c)	(146)	(155)
Net assets		101	2,988
Capital and reserves			
Called up share capital	13	36	36
Profit and loss account		65	2,952
Shareholders' funds		101	2,988

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

Director
Date
3rd May 2019

Notes to the financial statements

at 31 December 2018

1. Accounting policies

Statement of compliance

Leoni Temco Limited (registered number 00434420 is private company limited by shares incorporated in England. The registered office is Whimsey Industrial Estate, Cinderford, Gloucestershire, GL14 3HZ.

The Company's financial statements have been prepared in compliance with FRS 102 as it applies to the financial statements of the Company for the year ended 31 December 2018.

Basis of preparation

The financial statements are prepared in Sterling which is the functional currency of the Company and rounded to the nearest £000.

Judgements and key sources of estimation uncertainty

In preparing the financial statements, management have considered the 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. Management have concluded that there are no judgements, estimates or assumptions which have a material effect on amounts recognised in the financial statements.

Statement of cash flows

The Company is a subsidiary undertaking whereby 100% of the voting rights are controlled within the Group, and Group financial statements, in which the results of the company are included, are publicly available. Consequently, the company is a qualifying entity and has taken advantage of the exemption granted under FRS 102.1.12 and has not provided a statement of cash flows.

Intangible fixed assets

Subsequent to initial recognition, intangible assets are stated at cost less accumulated amortisation and accumulated impairment. Intangible assets are amortised on a straight-line basis over their estimated useful lives. The carrying value of intangible assets is reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

The useful economic lives of intangible assets are as follows:

IT Software – 3 years

If there are indicators that the residual value or useful life of an intangible asset has changed since the most recent annual reporting period previous estimates shall be reviewed and, if current expectations differ the residual value, amortisation method or useful life shall be amended. Changes in the expected useful life or the expected pattern of consumption of benefit shall be accounted for as a change in accounting estimate.

Tangible fixed assets

Tangible fixed assets are initially stated at cost.

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

Freehold land	–	nil
Freehold buildings	–	2.5% per annum
Plant and machinery, fixtures and fittings	–	6.67% to 50% per annum

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.

Notes to the financial statements (continued)

at 31 December 2018

1. Accounting policies (continued)

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 has passed to the buyer, usually on dispatch of goods.

- Interest income

Interest income is recognised as interest accrues using the effective interest method.

Stocks

Stocks are stated at the lower of cost and net realisable value.

Raw materials are valued at cost based on a first-in-first-out basis.

In respect of work-in-progress and finished goods, cost incurred in bringing each product to its present location and condition is based on conversion costs incurred including depreciation and other related fixed and variable production overheads.

Net realisable value is based on estimated normal selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less or to receive more, tax, with the following exceptions:

- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

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.

Foreign currencies

Transactions denominated in foreign currencies are recorded in the local currency at actual exchange rates as of the date of the transaction (or, where appropriate, at the rate of exchange in a related forward exchange contract). Monetary assets and liabilities denominated in foreign currencies at the year-end are reported at the rates of exchange prevailing at the yearend (or, where appropriate, at the rate of exchange in a related forward exchange contract). Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

Notes to the financial statements (continued)

at 31 December 2018

1. Accounting policies (continued)

Operating leases

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

Pensions

The company operates a defined contribution pension scheme. Contributions are charged in the profit and loss account as they become payable in accordance with the rules of the scheme.

2. Turnover

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties and is attributable to one continuing activity, as stated in the directors' report.

An analysis of turnover by geographical market is given below:

	2018	*2017*
	£000	*£000*
UK	2,720	3,178
Europe – external sales	8,111	8,916
Europe – intercompany sales	3,615	4,185
Asia – external sales	–	93
Asia – intercompany sales	12	293
Other – external sales	1,346	2
Other – intercompany sales	82	–
	15,886	16,667

3. Operating Profit

This is stated after charging/(crediting):

			2018	*2017*
			£000	*£000*
Auditors' remuneration	–	audit services	16	13
Amortisation of owned intangible fixed assets (included in 'cost of sales')			12	12
Depreciation of owned tangible fixed assets (included in 'cost of sales')			431	465
Operating leases	–	plant and machinery	42	47
Foreign exchange differences			37	(39)

Notes to the financial statements (continued)

at 31 December 2018

4. Directors' remuneration

	2018	*2017*
	£000	*£000*
Remuneration	111	95
Company contributions paid to defined contribution pension schemes	3	3

	No.	*No.*
Members of defined contribution pension schemes	1	1

5. Staff costs

Particulars of employees (including executive directors) are as shown below:

	2018	*2017*
	£000	*£000*
Wages and salaries	2,148	2,170
Social security costs	205	203
Pension costs	53	47
	2,406	2,420

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

	No.	*No.*
Production	58	55
Sales and distribution	6	6
Administration	5	6
	69	67

6. Interest payable and similar charges

	2018	*2017*
	£000	*£000*
Group interest payable	55	55

Notes to the financial statements (continued)

at 31 December 2018

7. Tax

(a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	2018	*2017*
	£000	*£000*
Current tax:		
UK corporation tax on the profit for the year	109	164
Adjustment in respect of prior years	–	–
Total current tax (note 7(b))	109	164
Deferred tax:		
Origination and reversal of timing differences (note 7(c))	(9)	(12)
Tax on profit	100	152

(b) Factors affecting tax charge for the year

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 19% (2017 – 19.25%). The differences are explained below:

	2018	*2017*
	£000	*£000*
Profit before tax	513	777
Tax on profit multiplied by standard rate of corporation tax in the UK of 19% (2017 – 19.25%)	97	150
Effects of:		
Expenses not deductible for tax purposes	1	–
Group relief claimed	–	–
Income not taxable for tax purposes	–	–
Effect of change in tax rates and prior year adjustments	2	2
Total tax for the year (note 7(a))	100	152

(c) Deferred tax

The movements on deferred tax during the year are as follows:

	£000
At 1 January 2018	155
Credited during the year (note 7(a))	(9)
At 31 December 2018	146

Notes to the financial statements (continued)

at 31 December 2018

7. Tax

(c) Deferred tax (continued)

The deferred tax asset consists of:

	2018	*2017*
	£000	*£000*
Accelerated capital allowances	146	155

(d) Factors that may affect future tax charges

Reductions in the United Kingdom's corporation tax rate from 19% to 17% with effect from 1 April 2020 was substantively enacted on 6 September 2016. Deferred tax has been calculated at 17% on the basis that it is assumed that the underlying timing differences will unwind at this rate.

8. Intangible fixed assets

	Computer software
	£000
Cost:	
At 1 January 2018	37
Additions	3
As at 31 December 2018	40
Amortisation:	
At 1 January 2018	19
Charge for the year	12
At 31 December 2018	31
Net book value:	
At 31 December 2018	9
At 1 January 2018	18

Notes to the financial statements (continued)

at 31 December 2018

9. Tangible fixed assets

	Freehold land and buildings £000	*Plant and machinery £000*	*Fixtures and fittings £000*	*Total £000*
Cost:				
At 1 January 2018	1,808	9,014	1,183	12,005
Additions	51	272	120	443
Disposals	–	(148)	(1)	(149)
At 31 December 2018	1,859	9,138	1,302	12,299
Depreciation:				
At 1 January 2018	1,163	7,684	1,045	9,892
Charge for the year	51	246	134	431
Disposals	–	(143)	(1)	(144)
At 31 December 2018	1.214	7,787	1,178	10,179
Net book value:				
At 31 December 2018	645	1,351	124	2,120
At 1 January 2018	645	1,330	138	2,113

10. Stocks

	2018 £000	*2017 £000*
Raw materials and consumables	1,468	1,220
Work in progress	727	720
Finished goods	316	359
	2,511	2,299

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

Stocks recognised as an expense in the period were £10 million (2017 – £11 million).

Notes to the financial statements (continued)

at 31 December 2018

11. Debtors

	2018 £000	2017 £000
Trade debtors	1,158	1,103
Amounts owed by group undertakings	188	2,581
Prepayments and accrued income	313	112
Tax debtor	229	27
Other debtors	2	86
	1,890	3,909

Amounts due from group undertakings relate to trading.

12. Creditors: amounts falling due within one year

	2018 £000	2017 £000
Trade creditors	2,346	2,741
Amounts due to group undertakings	3,366	2,026
Other taxes and social security costs	50	52
Accruals	243	210
Tax creditor	274	164
Other creditors	4	3
	6,283	5,196

Amounts due to group undertakings include loans of £3.3 million (2017 – £2 million) which are unsecured and interest bearing (interest rates range from 0.6% to 3.3%), repayable on demand. The remainder of the balance relates to trading.

13. Issued share capital

		2018		2017
Allotted, called up and fully paid	*No.*	*£000*	*No.*	*£*
Ordinary shares of £1 each	36,363	36	36,363	36

14. Pensions

The company operates a defined contribution group personal pension scheme.

The charge for the year is shown in note 5 to the financial statements. There were no unpaid contributions outstanding at the year end.

Notes to the financial statements (continued)

at 31 December 2018

15. Other financial commitments

At 31 December 2018 the company had annual commitments under non-cancellable operating leases as set out below:

	Plant and machinery	
	2018	*2017*
	£000	*£000*
Operating leases which expire:		
Within one year	38	42
In two to five years	69	107
	107	149

16. Related party transactions

As the company is a wholly owned subsidiary within a group which prepares publicly available financial statements, the company is a qualifying entity and is exempt from the requirements of FRS 102.1.12 to disclose transactions with other group entities.

17. Ultimate parent undertaking and controlling party

The immediate parent undertaking is Leoni Draht GmbH.

The company's ultimate parent undertaking and controlling party is Leoni AG, a company incorporated in Germany, which owns 100% of the share capital of the company. This is the smallest and largest group of companies for which group financial statements are prepared and of which this company is a member. Copies of the group financial statements, which include the company, are available from Marienstraße 7, 90402 Nürnberg, Germany.