MAHLE Powertrain Limited

Annual report and financial statements

Registered number 03565155

31 December 2016

Contents

Directors and Other Information

Directors

F Tuerk
M Berger
S Ferguson
W H Scheider

Auditors

PricewaterhouseCoopers LLP
Cornwall Court
19 Cornwall Street
Birmingham B3 2DT

Bankers

HSBC
Level 37
Canada Square
London E14 5HQ

Solicitors

Gregory Rowcliffe Milners
1 Bedford Row
London WC1R 4BZ

Registered Office

Costin House
St James Mill Road
Northampton NN5 5TZ

Strategic report

The directors present their strategic report for the year ended 31 December 2016.

Principal activities

The principal activity of the company is the engineering and manufacture of components for the automotive industry to meet the specialist needs of vehicle manufacturers with:

- Engine and powertrain design and development
- Vehicle information products and diagnostic systems
- Low volume engine manufacture and assembly
- Aluminium casting technology

Review of the business

The profit for the financial year amounted to £3,573,000 (2015: profit of £6,502,000). The directors do not recommend a final dividend (2015: £nil).

Turnover in 2016 increased from £69,521,000 in 2015 to £72,512,000 in 2016, mainly due to higher demand in sales in assembly and machining.

The company also continues to contribute to the MAHLE Powertrain Limited defined benefit pension scheme, which at the end of the year resulted in a net asset deficit of £5,410,000 compared to a net surplus in the previous year of £4,338,000. This scheme is closed to future benefit accrual and MAHLE Powertrain Limited will continue to contribute to the scheme should a future deficit arrive.

The net asset position of the company has decreased from £31,729,000 in 2015 to £29,892,000 at 31 December 2016.

Operational review

In 2016, there were operational changes which led to the decision to close one of the company's manufacturing facilities. This led to significant restructuring provisions being made during 2016 with an adverse effect on operating profit.

Business development activity continues to maintain a high profile within the company making use of its parent MAHLE GmbH's global presence and sales network.

The directors expect activities for 2017 to be in line with current industry and economic trends.

The company has KPI's for Employee Fluctuation based on employee retention and Health & Safety training. Continuous improvement remains a key focus.

MAHLE Powertrain Limited continues to perform research activities to ensure it maintains its competitiveness in the area of powertrain design and development. These activities are conducted internally and in conjunction with academic institutions, vehicle Original Equipment Manufacturers and government. Technical papers reporting the results of this work are being given at major automotive conferences. Key areas of research include reduction of CO_2 and other exhaust gas emissions, alternative fuels, combustion, and engine calibration, friction reduction and hybrid technologies. The MAHLE Powertrain Limited downsizing engine has continued to be developed with many new concepts and systems. It continues to provide a platform for fundamental research as well as creating interest within the customer base.

Strategic report *(continued)*

Operational review *(continued)*

Research on the development of technologies for electrification of vehicles continues alongside widening of conventional powertrain capabilities. Customer interest in electrification and hybridisation continues and as part of this MAHLE Powertrain Limited has increased its number of hybrid demonstrator vehicles to satisfy that interest. This has led to a number of enquiries into those new technologies.

Financial review

The business' key financial indicators which deal with sales, margin, inventories, capital employed, overheads and employees have been identified and are monitored monthly as part of the company's internal and group reporting structure. These measures are all reported in the financial statements.

Key performance indicators

Key Performance Indicator	*2016*	*2015*	*Reason for Movement*
Return on Sales (ROS)	*4.3%*	*9.4%*	*The 2016 result was adversely impacted by restructuring provision required for the partial closure of the manufacturing facility.*
Return on Capital Employed (ROCE)	*14.0%*	*27.2%*	

Principal risks and uncertainties

The directors anticipate that the current conditions in the global automotive market will continue into the foreseeable future. The emphasis on tight cost control will continue, as will the efforts to win more projects. The company will continue to take advantage of its parent undertaking's global sales presence and business development initiatives.

Market risk

As outlined in the business review, the competitive nature of the global automotive market poses significant risks for the company. Diverging technical direction from within the customer base is also causing some uncertainty and opportunities. The company aims to minimise the risk with its focus on business development activity and invest in new capabilities. Further efforts are focused on streamlining its processes and cost base.

Operational risk

The company utilises machine tools, electronic equipment and a variety of fuels in its processes, the company takes its health and safety responsibilities very seriously. The company has introduced the Safe Home Everyone Every Day philosophy within its manufacturing aspects with a particular emphasis toward behavioural safety. In all areas the company seeks to at least comply with all relevant legislation and significant senior management time is allocated in this respect. The introduction of a four stage manufacturing scorecard covering People, Quality, Velocity and Cost signifies the ongoing focus towards operational excellence and performance enhancement.

Strategic report *(continued)*

Financial risk management

The company's operations expose it to a variety of financial risks that include credit risk, liquidity risk, interest rate risk and foreign exchange risk.

The policies set by the board of directors are implemented by the company's finance department.

Credit risk

The company has implemented policies that require appropriate credit checks on potential customers before sales are made. Debt finance is not utilised.

Liquidity risk

The company retains sufficient cash to ensure it has sufficient funds available for operations. On 8 March 2011 the company started to participate in a UK cash pooling arrangement with other UK related companies, guaranteed by the ultimate parent undertaking. In addition, the company would have access to longer term funding from its ultimate parent if required. The directors pay close attention to the collection of monies due from customers.

Interest rate risk

The interest charged on any overdrafts within the facility with HSBC plc is Bank of England base rate plus 1.1% for GBP, Federal Reserve base rate plus 1.1% for USD and the British Bankers Association base rate plus 1.1% for EUR for debit balances. The rate for credit balances is currently 0%.

Foreign exchange rate risk

The company is exposed to some foreign exchange rate risk as a result of its operations. The company has a policy of hedging this risk and places forward contracts from time to time to manage this risk. Forward contracts placed by a related company on the net UK exposure were in place at the balance sheet date.

On behalf of the board

F Tuerk
Director

Date 1st September 2017

M Berger
Director

Date 1st September 2017

Directors' report

The directors present their report and the audited financial statements for the year ended 31 December 2016.

Directors and company secretary

The directors and company secretary who served the company during the year and up to the date of signing the financial statements were as follows:

F Tuerk
M Berger
S Ferguson
W H Scheider
T J Sharpe (Resigned 01 January 2017)

The company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

Proposed dividend

The directors do not recommend the payment of a dividend. (2015: £nil)

Research and development

The company continues to invest in research and development of new products. This amounted to £1,355,000 in 2016 (2015: £768,000) of which £nil (2014: £nil) has been capitalised during the year with all costs being written off to the profit and loss account. The directors regard the investment in research and development as integral to the continuing success of the company and ensuring that the company provides its customers with high quality products.

Future developments

MAHLE Powertrain Limited will continue to increase capability and capacity offered to its customers in existing business areas alongside some further widening of capabilities related to the engine and vehicle. As air quality and future emissions legislation including Real Drive Emissions (RDE) further increases in importance, MAHLE Powertrain will continue to invest in these new areas. It is also becoming clear that increased levels of powertrain electrification is required and therefore further Research and Development and facility investment activities will be focused in this area.

Events since the balance sheet date

There have been no significant events which affected the company since 31 December 2016.

Financial instruments

The company is exposed to foreign exchange rate risk as a result of some of its operations. The company has a policy of hedging this risk using derivative financial instruments in the form of forward exchange rate contracts. Forward contracts were in place with MAHLE Industries UK Limited at the statement of financial position date.

Going concern

The directors have assessed the ability of the company to continue as a going concern as part of their annual strategic review. Thus the financial statements have been prepared on a going concern basis.

Directors' report *(continued)*

Disabled employees

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

Employee involvement

Consultation with employees or their representatives has continued at all levels, with the aim of ensuring that views are taken into account when decisions are made that are likely to affect their interests and that all employees are aware of the financial and economic performance of their business units and of the Company as a whole. There is communication with all employees through electronic mail, notice boards, newsletters, team briefing groups and presentations.

Disclosure of information to the auditors

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 auditors are unaware; and each director has taken all the steps that ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Re-appointment of auditors

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

On behalf of the board

F Tuerk *Director*	**M Berger** *Director*
Date 1st September 2017	Date 1st September 2017

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation. Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", 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 the financial statements, the directors are required to:

• select suitable accounting policies and then apply them consistently;

• state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;

• make judgements and accounting estimates that are reasonable and prudent; 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.

The directors 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.

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

On behalf of the board

F Tuerk
Director

Date 1st September 2017

M Berger
Director

Date 1st September 2017

Independent auditors' report to the members of MAHLE Powertrain Limited

Report on the financial statements

Our opinion

In our opinion, MAHLE Powertrain Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

- the Statement of Financial Position as at 31 December 2016;
- the Statement of Comprehensive Income for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

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 the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Independent auditors' report to the members of MAHLE Powertrain Limited *(continued)*

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, 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.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities in respect of the annual report and the financial statements 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.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

Independent auditors' report to the members of MAHLE Powertrain Limited *(continued)*

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Matthew Walker

Matthew Walker (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham

6 SEPTEMBER 2017

Statement of comprehensive income
for the year ended 31 December 2016

	Note	2016	2015
		£000	£000
Turnover	2	**72,512**	69,521
Cost of sales		**(58,605)**	(57,514)
Gross profit		**13,907**	12,007
Distribution costs		**(1,044)**	(1,076)
Administrative expenses		**(1,981)**	(2,256)
Loss on disposal of tangible assets		**(1,015)**	(40)
Exceptional administrative expenses	3	**(4,674)**	-
Operating profit	3	**5,193**	8,635
Interest payable and similar expenses	6	**(21)**	(109)
Profit on ordinary activities before taxation		**5,172**	8,526
Tax on profit on ordinary activities	7	**(1,599)**	(2,024)
Profit for the financial year		**3,573**	6,502
Other comprehensive (loss)/income			
Actuarial (loss)/gain on defined benefit pension	14	**(5,410)**	2,281
Other comprehensive income for the year, net of income tax			
Total comprehensive (loss)/income for the		**(1,837)**	8,783

The above results are derived wholly from continuing operations.

Statement of financial position

as at 31 December 2016

	Note	**2016** **£000**	**£000**	2015 £000	£000
Fixed assets					
Tangible assets	*8*	**15,574**		17,363	
			15,574		17,363
Current assets					
Stocks	*9*	**2,363**		2,557	
Debtors	*10*	**35,163**		25,554	
Cash at bank and in hand		**148**		25	
		37,674		28,136	
Creditors: amounts falling due within one year	*11*	**(16,195)**		(13,764)	
Net current assets			**21,479**		14,372
Total assets less current liabilities			**37,053**		31,735
Creditors: amounts falling due after more than one year	*12*	**(30)**		(6)	
Provisions for liabilities					
Pensions and similar obligations	*14*	**(5,410)**		-	
Other provisions	*15*	**(1,721)**		-	
			(7,161)		(6)
Net assets			**29,892**		31,729
Capital and reserves					
Called up share capital	*16*		**35,533**		35,533
Capital redemption reserve			**5,634**		5,634
Capital contribution reserve			**40,700**		40,700
Profit and loss account			**(51,975)**		(50,138)
Total shareholders' funds			**29,892**		31,729

These financial statements were approved by the board of directors on 1st September 2017 and were signed on its behalf by:

F Tuerk
Director

M Berger
Director

Company registered number: 03565155

Statement of changes in equity

for the year ended 31 December 2016

	Called up share capital	Capital redemption reserve	Capital contribution reserve	Profit and loss account	Total equity
	£000	**£000**	**£000**	**£000**	**£000**
Balance at 1 January 2015	35,533	5,634	40,700	(58,921)	22,946
Total comprehensive income for the year					
Profit for the financial year	-	-	-	6,502	6,502
Other comprehensive income	-	-	-	2,281	2,281
Total comprehensive income for the year	-	-	-	8,783	8,783
Balance at 31 December 2015	35,533	5,634	40,700	(50,138)	31,729
Balance at 1 January 2016	35,533	5,634	40,700	(50,138)	31,729
Total comprehensive loss for the year					
Profit for the financial year	-	-	-	3,573	3,573
Other comprehensive loss	-	-	-	(5,410)	(5,410)
Total comprehensive loss for the year	-	-	-	(1,837)	(1,837)
Balance at 31 December 2016	35,533	5,634	40,700	(51,975)	29,892

Notes to the financial statements

1 Accounting policies

MAHLE Powertrain Limited (the "Company") is a company limited by shares and incorporated and domiciled in the UK.

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"*) as issued in August 2014, on a going concern basis, under the historical cost convention and in accordance with the applicable accounting standards in the United Kingdom and the Companies Act 2006.

The functional and presentational currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

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

FRS 102 grants exemptions from the full requirements of FRS 102. The following exemptions have been taken in these financial statements:

- Lease incentives – for leases commenced before 1st January 2014 the Company continued to account for lease incentives under previous UK GAAP.

The Company's ultimate parent undertaking, MAHLE GmbH includes the Company in its consolidated financial statements. The consolidated financial statements of MAHLE GmbH are prepared in accordance with German GAAP and are available to the public and may be obtained from MAHLE GmbH, Pragstrasse 26-46, 70376 Stuttgart, Germany. 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:

- Cash Flow Statement and related notes (FRS 102 paragraph 1.12(b)); and
- Key Management Personnel compensation (FRS 102 paragraph 33.7).

1.1 Foreign currency

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

1.2 Basic financial instruments

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

1.2.1 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.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents.

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

1.2.2 Other financial instruments

Derivative instruments

The company uses forward foreign currency contracts to reduce exposure to foreign exchange rates.

Derivative financial instruments are initially measured at fair value on the date on which a derivative contract is entered into and are subsequently measured at fair value through profit or loss. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The fair value of the forward currency contracts is calculated by reference to current forward exchange contracts with similar maturity profiles.

1.2.3 Offsetting

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

1.3 Tangible 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.

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

Depreciation is charged to the profit and loss account on a straight-line basis over the useful economic 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 useful economic lives are as follows:

- buildings 25 years
- plant and equipment 5 to 8 years
- fixtures and fittings 3 to 7 years

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.

1.4 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.

1.5 Construction contract debtors

Construction contract debtors represent the gross unbilled amount for contract work performed to date. They are measured at cost plus profit recognised to date (see the revenue accounting policy) less a provision for foreseeable losses and less progress billings. Variations are included in contract revenue when they are reliably measurable and it is probable that the customer will approve the variation itself and the revenue arising from the variation. Claims are included in contract revenue only when they are reliably measurable and negotiations have reached an advanced stage such that it is probable that the customer will accept the claim. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Company's contract activities based on normal operating capacity.

Construction contract debtors are presented as part of debtors in the balance sheet. If payments received from customers exceed the income recognised, then the difference is presented as accruals and deferred income in the balance sheet.

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

1.6 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.

1.7 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.

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

Termination benefits

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

1.8 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.

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

1.9 Turnover

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

Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on dispatch of the goods.

Recognition for long–term contracts

Revenue associated to the completion of engineering contracts is recognised as the contract activity progresses to reflect the partial performance of the contractual obligations. The amount of revenue recognised will reflect the value of the work performed. Where contracts are assessed as loss making, provisions are recognised immediately as they occur.

1.10 Expenses

Operating lease

Payments 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 income and interest payable are recognised in profit or loss as they occur and any accrual is calculated using the effective interest method.

1.11 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. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met; to the extent that it is not probable that they will reverse in the foreseeable future and the reporting entity is able to control the reversal of the timing difference. 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 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 to the financial statements *(continued)*

1 Accounting policies *(continued)*

1.12 Going concern

The company meets its day-to-day working capital requirements through its bank facilities. The company participates in a UK cash pooling arrangement with other related UK companies, guaranteed by the ultimate parent undertaking. In addition it has access to longer term funding from the ultimate parent undertaking if required. The company's forecasts and projections, taking account of reasonably possible changes in performance, show that the company should be able to operate within the level of its current facilities. The directors have reasonable expectations that the company has adequate resources to continue in operational existence for the foreseeable future. The company therefore continues to adopt the going concern basis in preparing its financial statements.

1.13 Share capital and distributions to equity holders

Ordinary shares are classified as equity. Dividends and other distributions to company's shareholders are recognised as a liability in the financial statements in the period in which the dividends and other distributions are approved by the company's shareholders. These amounts are recognised in the statement of changes in equity.

Capital redemption reserve

The capital redemption reserve was established when part of the company's share capital was purchased.

Capital contribution reserve

A contribution by the parent company to the equity capital of the Company is shown within the capital contribution reserve.

1.14 Related party transactions

The company discloses transactions with related parties which are not wholly owned by the same group. It does not disclose transactions with members of the same group that are wholly owned.

1.15 Provisions

Exceptional items are transactions that fall within the ordinary activities of the Company but are presented separately due to their size or incidence.

1.16 Critical accounting judgements and estimation uncertainty

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

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are listed below.

Revenue recognition

Part of the company's sales are generated from long term contracts. Before profit can be recognised, managerial judgment is applied with regard to contractual performance and estimation of the final outcome of the contract. Estimates are also necessary to determine total contract costs and whether any loss provisions are to be made.

Useful economic lives of tangible assets (note 8)

The annual depreciation charge for tangible assets is sensitive to changes in the estimate useful economic lives and residual values of the assets. The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. See note 8 for the carrying amount of the property, plant and equipment and note 1.3 for the useful economic lives of each class of assets.

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

1.16 Critical accounting judgements and estimation uncertainty (continued)

Inventory provisioning (note 9)

The company is subject to changing consumer demands, trends and competition. 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. See note 9 for the carrying amount of the inventory and associated provision.

Impairment of debtors (note 10)

The company makes an estimate of the recoverable value of trade and other debtors. When assessing impairment, management considers factors including the ageing profile of the debtors and historical experience. See note 10 for the carrying amount of debtors and associated impairment provision.

Accruals and deferred income (note 11)

Accruals are established for short-term liabilities that are known and for those risks that are identifiable at the balance sheet date. The values of the accruals can be based an expectation of actual cost but can also be estimated on the basis of experience. Examples include restructuring costs, environmental costs, utility charges, personnel costs and credit notes due to customers.

Notes to the financial statements *(continued)*

2 Turnover

	2016 £000	2015 £000
Sale of goods	**50,446**	51,039
Services	**22,066**	18,482
Total turnover	**72,512**	69,521

	2016 £000	2015 £000
By geographical market		
United Kingdom	**52,305**	47,449
Europe (excluding United Kingdom)	**14,171**	19,717
USA	**5,127**	364
Rest of the world	**909**	1,991
	72,512	69,521

As noted above, company has customers in different geographical markets however the turnover is originated in the UK.

3 Operating profit

This is stated after charging/(crediting)

	2016 £000	2015 £000
Auditors' remuneration:		
Audit of financial statements	**44**	40
Other Services	**10**	-
Depreciation of tangible fixed assets (note 8)	**2,847**	3,294
Foreign exchange gain	**(248)**	(3)
Research and development expenditure	**1,355**	768
Operating lease rentals	**746**	1,201
Government grants	**-**	(58)
Net loss on disposal of tangible assets	**1,015**	40
Restructuring costs	**4,674**	-

Government grants received in 2015 were to support R&D activities into the reduction and treatment of diesel exhaust gas emissions in passenger cars. The funding was provided by Northampton Enterprise Partnerships under the High Performance Technologies Investment Programme. The conditions of the grant have been satisfied, however grant annual monitoring will be supported for the next three years.

The loss on disposal of assets is in relation to the sale of the aluminium foundry in Warndon, Worcester.

Restructuring provisions to the total value of £4,674,000 were made during the year. Estimated employee severance costs amounting to £918,000, asset impairments of £1,762,000, stock write-downs of £1,191,000 and dilapidation costs of £803,000 are recognised in the financial year ended 31 December 2016.

Notes to the financial statements *(continued)*

4 Staff numbers and costs

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

	Number of employees	
	2016	2015
Production	**231**	271
Selling and distribution	**18**	18
Administration	**21**	21
Development	**188**	169
	458	479

The aggregate payroll costs of these persons were as follows:

	2016	2015
	£000	£000
Wages and salaries	**17,389**	17,069
Social security costs	**1,822**	1,742
Other pension costs	**1,074**	861
Restructuring costs	**918**	-
	21,203	19,672

5 Directors' remuneration

	2016	2015
	£000	£000
Directors' remuneration	**6**	3

The company made no pension contributions in respect of the highest paid director.

Directors of the company who served during the year were employed by other group companies within the MAHLE Group and did not receive emoluments from MAHLE Powertrain Limited. F Tuerk and W Scheider are employed by MAHLE GmbH and M Berger is employed by MAHLE Powertrain GmbH. These directors did not receive any emoluments from any other party specifically for services as a director of MAHLE Powertrain Limited and it is not possible to make an accurate apportionment of the directors' emoluments received from other group companies in respect of their services to MAHLE Powertrain Limited. Accordingly these financial statements include £nil emoluments for these directors (2015: £nil).

Notes to the financial statements *(continued)*

6 Interest payable and similar expenses

	2016 £000	2015 £000
Interest payable – group companies	**21**	31
Net interest expense on the net defined benefit pension liability	**-**	78
Total other interest payable and similar charges	**21**	109

7 Taxation on profit

Total tax expense recognised in the profit and loss account, other comprehensive income and equity

	2016 £000	£000	2015 £000	£000
Current tax				
Current tax on income for the period	**365**		414	
Total current tax		**365**		414
Deferred tax (see note 13)				
Origination and reversal of timing differences	**1,234**		1,610	
Total deferred tax		**1,234**		1,610
Total tax		**1,599**		2,024

Notes to the financial statements *(continued)*

7 Taxation *(continued)*

	2016 £000 Current tax	2016 £000 Deferred tax	2016 £000 Total tax	2015 £000 Current tax	2015 £000 Deferred tax	2015 £000 Total tax
Recognised in Profit and loss account	**365**	**1,234**	**1,599**	414	1,610	2,024
Total tax	**365**	**1,234**	**1,599**	414	1,610	2,024

Analysis of current tax recognised in profit and loss

	2016 £000	2015 £000
Foreign tax	**365**	414
Total tax recognised in profit and loss	**365**	414

Reconciliation of effective tax rate

	2016 £000	2015 £000
Profit for the year	**3,573**	6,502
Total tax expense	**1,599**	2,024
Profit excluding taxation	**5,172**	8,526
Tax using the UK corporation tax rate of 20.00 % (2015: 20.25%)	**1,034**	1,727
Capital allowances in excess of depreciation	**-**	(169)
Movement in short term timing differences	**-**	3
Non-deductible expenses	**57**	49
Unutilised loss carried forward	**5**	-
Losses brought forward utilised	**138**	-
Non UK income tax	**365**	414
Total tax expense included in profit or loss	**1,599**	2,024

Factors that may affect future tax changes

The main corporation tax rate was reduced from 21% to 20% on the 1 April 2015. The Finance (No 2) Act 2015 enacted further changes to the main rate, reducing it to 19% on 1 April 2017 and 18% on 1 April 2020. A further reduction of 1% has been announced from 1 April 2020 and this has now been substantively enacted. These rates have been used in the calculation of deferred tax.

Notes to the financial statements *(continued)*

8 Tangible assets

	Land and buildings £000	Plant and equipment £000	Office & other equipment £000	Under construction £000	Total £000
Cost					
Balance at 1 January 2016	9,026	50,312	5,625	837	65,800
Additions	66	1,033	143	2,594	3,836
Disposals	(1,419)	(2,653)	(9)	-	(4,081)
Transfers	63	735	39	(837)	-
Balance at 31 December 2016	**7,736**	**49,427**	**5,798**	**2,594**	**65,555**
Accumulated depreciation					
Balance at 1 January 2016	(3,743)	(39,376)	(5,318)	-	(48,437)
Depreciation charge for the year	(254)	(2,400)	(183)	(10)	(2,847)
Disposals	523	2,533	9	-	3,065
Impairment	-	(1,762)	-	-	(1,762)
Balance at 31 December 2016	**(3,474)**	**(41,005)**	**(5,492)**	**(10)**	**(49,981)**
Net book value					
At 31 December 2015	5,283	10,936	307	837	17,363
At 31 December 2016	**4,262**	**8,422**	**306**	**2,584**	**15,574**

Land and Buildings

The net book value of land and buildings comprises:

	2016 £000	2015 £000
Freehold	**1,336**	1,836
	1,336	1,836

The reduction in value of the freehold land relates to the sale of the aluminium foundry in Warndon, Worcester.

Notes to the financial statements *(continued)*

9 Stocks

	2016	2015
	£000	£000
Raw materials and consumables	**1,656**	1,114
Work in progress	**460**	318
Finished goods	**247**	1,125
	2,363	2,557

There is no significant difference between the replacement cost of stock and their carrying amounts.

Raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales in the year amounted to £26,391,000 (2015: £22,455,000).

Inventories are stated after provisions for impairment of £1,405,000 (2015: £2,234,000).

10 Debtors

	2016 £000	2015 £000
Trade debtors	**10,178**	10,035
Amounts owed by group undertakings - trade	**2,053**	1,600
Amounts owed by group undertakings - loan	**20,053**	10,383
Other debtors	**8**	37
Deferred tax assets	**1,421**	2,586
Derivative financial instruments (note 17)	**430**	73
Amounts recoverable on contracts	**602**	444
Prepayments and accrued income	**418**	396
	35,163	25,554
Due within one year	**34,640**	23,147
Due after more than one year	**523**	2,407
	35,163	25,554

Trade debtors are stated after provisions for impairment of £465,000 (2015: £327,000).

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

Amounts owed by group undertakings - loan is part of a multi-currency net-nil facility and cash pooling arrangement with HSBC plc. The other participants in these arrangements are MAHLE Filter Systems UK Limited, MAHLE Industries (UK) Limited, MAHLE Engine Systems UK Limited and MAHLE Aftermarket Limited.

Notes to the financial statements *(continued)*

11 Creditors: amounts falling due within one year

	2016	2015
	£000	£000
Trade creditors	**5,418**	3,020
Amounts owed to group undertakings - trade	**900**	939
Taxation and social security	**1,721**	1,455
Derivative financial instruments (note 17)	**120**	27
Payments received on account	**3,801**	4,774
Deferred tax liability	**83**	14
Accruals	**4,152**	3,535
	16,195	13,764

Amounts owed to group undertakings - trade are unsecured, interest free and repayable on demand.

12 Creditors: amounts falling due after more than one year

	2016	2015
	£000	£000
Derivative financial instruments (note 17)	**30**	6
	30	6

Notes to the financial statements *(continued)*

13 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2016	2015	**2016**	2015	**2016**	2015
	£000	£000	**£000**	£000	**£000**	£000
Accelerated capital allowances	**439**	381	**-**	-	**439**	381
Arising on provisions	**382**	637	**-**	-	**382**	637
Losses carried forward	**600**	1,568	**-**	-	**600**	1,568
Derivatives	**-**	-	**(83)**	(14)	**(83)**	(14)
Tax (assets) / liabilities	**1,421**	2,586	**(83)**	(14)	**1,338**	2,572
Net tax (assets) / liabilities	**1,421**	2,586	**(83)**	(26)	**1,338**	2,572

The following further deferred tax assets have not been recognised due to the uncertainty of their recovery in the foreseeable future. These potential deferred tax assets would be deemed recoverable in the event that sufficient taxable profits are generated.

	2016	2015
	£000	£000
Accelerated capital allowances	**1,537**	1,695
Unrecognised deferred tax assets	**1,537**	1,695

The amount of the net reversal of deferred tax expected to occur next year is £439,000 relating to the reversal of existing timing differences on tangible fixed assets, derivatives and other accruals allowed when paid.

The unrecognised deferred tax asset associated to the pension scheme deficit at year end is £919,700 (asset 2015: £878,445).

Notes to the financial statements *(continued)*

14 Pensions and similar obligations

Defined benefit scheme

The company operates a pension scheme, The MAHLE Powertrain Pension Scheme. This is an approved funded pension scheme. The assets of the scheme are held separately from the assets of the company in trustee administered funds. The scheme provides benefits on a defined benefit basis and the following disclosures relate to the defined benefit scheme alone. Contributions to the scheme are assessed in accordance with the advice of a qualified actuary. The last actuarial calculation was 30 September 2014.

Main assumptions

The following assumptions have been used to value on the retirement benefit obligations of the company:

	2016	2015
	%	%
Rates assumed per annum:		
Liability discount rate	**2.45**	3.75
Price inflation (RPI)	**3.45**	3.45
Price inflation (CPI)	**2.75**	2.75
Rate of increase in pensions in payment	**2.45**	2.45
Male life expectancy at age 65	**22.8**	22.9
Female life expectancy at age 65	**25.0**	25.4

The company's net pension liability recognised in the company's balance sheet at 31 December is as follows:

	2016	2015
	£000	£000
Diversified growth fund	**10,390**	8,482
Equities	**8,548**	6,387
Bonds	**53,976**	32,563
Diversified credit fund	**35,134**	34,166
Cash and other investments	**110**	3,851
Total market value of assets	**108,158**	85,449
Present value of liabilities	**(113,568)**	(81,886)
Net (deficit)/surplus	**(5,410)**	3,563
Unrecognised surplus	**-**	(3,563)
Net deficit	**(5,410)**	-

The expected return on equities is related to gilt yields. The expected return on bonds is a weighted average of gilt and corporate bond returns. The expected return on cash is based on the Bank of England base rate.

Notes to the financial statements *(continued)*

14 Pensions and similar obligations *(continued)*

A guarantee exists provided by the parent company MAHLE GmbH , to secure up to £4.1m of any future deficit. As a result of the scheme being closed to future accrual no current year service cost has been incurred during the year.

An analysis of the amount debited to other financing costs is as follows:

	2016 £000	2015 £000
Net interest on net defined benefit liability	-	(78)
	-	(78)

An analysis of the amount recognised in other comprehensive income is as follows:

	2016 £000	2015 £000
Experience gains liabilities	-	3,082
Experience gains/(losses) on assets	23,137	(295)
Actuarial (loss)/gain	(32,110)	3,057
Effect of asset ceiling	3,563	(3,563)
	(5,410)	2,281

Notes to the financial statements *(continued)*

14 Pensions and similar obligations *(continued)*

An analysis of the change in the present value of plan assets in the year is as follows:

	2016 £000	2015 £000
Fair value of plan assets at beginning of the year	**85,449**	84,476
Interest Income	**3,007**	2,969
Return on scheme assets excluding interest income	**23,137**	(295)
Benefits paid	**(3,435)**	(1,701)
Fair value of plan assets at end of the year	**108,158**	85,449

	2016 £000	2015 £000
Actual Return on pension scheme assets	**26,144**	2,674

An analysis of the change in the present value of plan liabilities in the year is as follows:

	2016 £000	2015 £000
Present value of plan liabilities at beginning of the year	**81,886**	86,679
Interest on pension liabilities	**3,007**	3,047
Changes in assumptions underlying the plan liabilities	**32,110**	(3,057)
Experience losses / (gains)	**-**	(3,082)
Benefits paid	**(3,435)**	(1,701)
Present value of plan liabilities at end of the year	**113,568**	81,886

Employer contributions

The company contributed £nil to the pension plan in 2016 (2015: £nil) as advised by the actuary to reduce the scheme deficit.

Defined contribution scheme

The company also operates a defined contribution scheme via a stakeholder arrangement:

	2016 £000	2015 £000
Employer's contributions	**959**	743
Contributions outstanding at balance sheet date	**110**	109

Notes to the financial statements *(continued)*

15 Other Provisions

	Restructuring £000	Total £000
Balance at 1 January 2016	-	-
Provisions made during the year	**1,721**	**1,721**
Balance at 31 December 2016	**1,721**	**1,721**

Restructuring provisions were made during the year. Analysis of the provision is shown in note 3. It is expected to be fully utilised in 2017.

16 Called up share capital

Share capital

	2016 £000	2015 £000
Allotted, called up and fully paid		
35,533,086 ordinary shares of £1 each	**35,533**	35,533
	35,533	35,533
Shares classified in shareholders' funds	**35,533**	35,533
	35,533	35,533

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.

Notes to the financial statements *(continued)*

17 Financial instruments

The company has the following financial instruments:

	2016 £000	2015 £000
Financial assets at fair value through profit or loss		
- Derivative financial instruments	**430**	73
Financial assets that are debt instruments measured at amortised cost		
- Trade debtors	**10,178**	10,035
- Amounts owed by group undertakings	**22,106**	11,983
- Amounts recoverable on contracts	**602**	444
	32,886	22,462
Financial liabilities measured at fair value through profit or loss		
- Derivative financial instruments	**150**	33
Financial liabilities measured at amortised cost		
- Trade creditors	**5,418**	3,020
- Amounts owed to group undertakings	**900**	939
- Accruals	**4,152**	3,535
- Payments received on account	**3,801**	4,774
	14,271	12,268

Derivative financial instruments

The company enters into forward foreign currency contracts to mitigate the exchange rate risk for foreign currency payables and receivables. At 31 December 2016, the outstanding contracts all mature within 23 months of the year end. The company committed to buy €6,953,000 and pay a fixed sterling amount.

The fair value of the forward currency contracts is calculated by reference to current forward exchange contracts with similar maturity profiles. The key assumption used in valuing the derivatives is the forward exchange rate for GBP:EUR.

Notes to the financial statements *(continued)*

18 Operating leases

Non-cancellable operating lease future minimum lease rentals are payable as follows:

	2016 £000	2015 £000
Less than one year	**367**	611
Between one and five years	**188**	319
More than five years	**15**	18
	570	948

During the year £746,000 was recognised as an expense in the profit and loss account in respect of operating leases (2015: £1,201,000).

19 Commitments

The Company contractual commitments to purchase tangible fixed assets at the year-end were £3,179,000 (2015: £533,000).

20 Related parties

During the year, the company sold £67,900 (2015: £6,600) of goods to MAHLE Behr GmbH & Co. KG which is 50.71% owned by MAHLE GmbH. At the year end £41,900 (2015: £nil) was outstanding and included in Debtors. The receivable is unsecured and due in 60 days.

The company is exempt from disclosing other related party transactions as they are with other companies that are wholly owned within the group.

21 Ultimate parent company and parent company of larger group

The immediate parent Company is MAHLE Industries UK Limited which is incorporated in Great Britain and registered in England and Wales.

The Company's ultimate parent Company and controlling party is MAHLE GmbH, a Company incorporated in Germany. Copies of the ultimate parent's group financial statements may be obtained from MAHLE GmbH, Pragstrasse 26-46, 70376 Stuttgart, Germany. MAHLE GmbH is also the smallest and largest Company in which MAHLE Powertrain Limited is consolidated.