

Registered Number 4330235

TMD Friction UK Limited

Annual report and financial statements for the  
year ended 31 December 2011

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# **TMD Friction UK Limited**

## **Annual report and financial statements for the year ended 31 December 2011**

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# **TMD Friction UK Limited**

## **Directors and advisers for the year ended 31 December 2011**

### **Directors**

M R Hartland

S Firbank

R Sweetnam

### **Company secretary**

M R Hartland

### **Registered Office**

PO Box 18

Hunsworth Lane

Cleckheaton

West Yorkshire

BD19 3UJ

### **Independent auditors**

PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Benson House

33 Wellington Street

Leeds

LS1 4JP

### **Bankers**

HSBC Bank plc

14 Bradford Road

Cleckheaton

West Yorkshire

BD19 3SR

# **TMD Friction UK Limited**

## **Directors' report for the year ended 31 December 2011**

The directors present their report and the audited financial statements for the year ended 31 December 2011

### **Principal activity**

The principal activity of the company is the manufacture and distribution of brake pads, discs and shoes for passenger cars, commercial vehicles and trains

### **Ultimate parent company**

On 29 November 2011 Pamplona Capital Partners II L P , completed the sale of all its shares in TMD Friction Group S A to Nisshinbo Holdings Incorporated, a Japanese listed entity. The directors now consider Nisshinbo Holdings Incorporated to be the controlling party by virtue of its 100% ownership of the share capital of TMD Friction Group S A

### **Review of business**

The company achieved an operating profit of £6,140,000 (2010 £14,065,000) on turnover of £78,075,000 (2010 £81,215,000). This operating result is after charging depreciation of tangible fixed assets and amortisation of intangible fixed assets totalling £7,071,000 (2010 £5,931,000) for the year.

Sales reduced by £3,200,000 in 2011 due to a reduction in passenger car private label business and export sales. Demand from group companies for passenger car pads was also lower than in 2010. Commercial vehicle sales grew by 10% in 2011.

The company made capital investments of £1,146,000 during 2011 as part of the company's ongoing investment to improve quality and service to customers.

In November 2011, TMD Friction UK Limited repaid €33,531,550 of intercompany loans. This was financed by issuing 4,191,000 £1 ordinary shares on 14 December 2011 with a share price of €8 per share. All of the shares were acquired by TMD Friction Holdings (Lux) S a r l who own 100% of TMD Friction UK Limited shares. (See note 17 for further details). As a result of this other intangible assets totalling £815,813 associated with this long term financing have been fully amortised to the profit and loss account in the year.

Foreign exchange losses of £1,577,000 were recognised during the year. These gains combined with the operating performance resulted in a retained profit of £1,025,000. The closing balance sheet shows net assets of £97,396,000 (2010 net assets £70,657,000).

### **Results and dividends**

The directors do not recommend payment of a dividend (2010 £nil). The profit for the year of £877,000 (2010 £8,452,000) will be added to reserves.

### **Research and development**

During the year, the gross investment made by the Company on research and development was £587,000 (2010 £492,000).

### **Land and buildings**

There is no material difference between the book value and market value of the land and buildings.

# **TMD Friction UK Limited**

## **Directors' report for the year ended 31 December 2011 (continued)**

### **Principal risks and uncertainties**

The management of the business and the execution of the Company's strategy are subject to a number of risks. The key business risks and uncertainties affecting the Company are considered to relate to global demand for commercial and passenger vehicles, employee retention and the availability of raw materials. The company closely monitors global demand and is part of a larger group which assist with sourcing of raw materials and smoothing manufacturing.

For further details of the principal risks and uncertainties of TMD Friction UK Limited, see the TMD Friction Group S A accounts.

### **Key performance indicators (KPI's)**

The company mainly monitors the performance of the business based on financial measures of performance including

- Revenue growth
- EBITDA
- Profit before tax

The company monitor non financial KPIs such as stock loss and weekly production, as well as fuel usage and car sales in the UK and European economy.

### **Future outlook**

TMD anticipates growth in both UK and export markets for 2012 in both passenger car and commercial vehicles. Continuing efforts to increase sourcing of material from low cost countries are expected to further deliver further improved profitability in 2012. Investment of £1,200,000 is planned for 2012.

### **Directors**

The directors of the company, who held office during the year and upto the date of signing the financial statements, were as follows

M R Hartland  
S Firbank  
R Sweetnam

### **Employee involvement and training**

The company will continue to pursue, with vigour, its policy on the active involvement and participation of all employees in the achievement of a safe, efficient and effective group. To this end, the company will invest in the necessary training and development, which will be mutually beneficial to meet the individual's needs and objectives of the group.

The company believes that our human resources are our most valued asset and the key to our continued success. We will ensure that we communicate at all levels of the organisation.

The company is committed to employment policies, which follow best practice, based on equal opportunities for all employees, irrespective of sex, race, colour, disability or marital status. The company gives full and fair consideration to applications for employment for disabled persons, having regard to their particular aptitudes and abilities. Appropriate arrangements are made for the continued employment and training, career development and promotion of disabled persons employed by the company. If members of staff become disabled the company continues employment, either in the same or an alternative position, with appropriate retraining being given if necessary.

The company systematically provides employees with information on matters of concern to them, consulting them or their representatives regularly, so that their views can be taken into account when making decisions that are likely to affect their interests. Employee involvement in the company is encouraged, as achieving a common awareness on the part of all employees of the financial and economic factors affecting the company plays a major role in maintaining its

# **TMD Friction UK Limited**

## **Directors' report for the year ended 31 December 2011 (continued)**

### **Statement of directors' responsibilities**

The directors are responsible for preparing 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 the directors have prepared 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 judgements and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

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

### **Independent auditors and disclosure of information to independent auditors**

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

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

### **Independent auditors**

The independent auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

### **On behalf of the Board**



S Firbank  
Director  
26 March 2012

# **TMD Friction UK Limited**

## **Independent auditors' report to the members of TMD Friction UK Limited**

We have audited the financial statements of TMD Friction UK Limited for the year ended 31 December 2011 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet, the Accounting Policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

### **Respective responsibilities of directors and auditors**

As explained more fully in the statement of directors' responsibilities set out on page 4 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). 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 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.

### **Scope of the audit of the financial statements**

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. In addition, we read all the financial and non-financial information in the annual report and financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2011 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.

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## **TMD Friction UK Limited**

### **Independent auditors' report to the members of TMD Friction UK Limited (continued)**

#### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where 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



**Richard Bunter (Senior Statutory Auditor)**  
For and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Leeds  
26 March 2012



# TMD Friction UK Limited

## Profit and loss account for the year ended 31 December 2011

	Note	2011 £'000	2010 £'000
<b>Turnover</b>	1	<b>78,075</b>	81,215
Cost of sales		(49,084)	(48,108)
<b>Gross profit</b>		<b>28,991</b>	33,107
Distribution costs		(3,819)	(3,825)
Administrative expenses		(19,032)	(15,217)
<b>Operating profit</b>		<b>6,140</b>	14,065
Analysed as:			
Operating profit before exceptional items		6,687	14,065
- restructuring	2	(547)	-
<b>Operating profit</b>		<b>6,140</b>	14,065
Finance expense	6	(2,282)	(1,304)
Analysed as:			
Interest payable and similar charges	6	(1,877)	(1,371)
Exceptional foreign exchange (loss)/gain	2, 6	(905)	267
Other financial income/(costs)	20	500	(200)
<b>Profit on ordinary activities before taxation</b>	2	<b>3,858</b>	12,761
Tax on profit on ordinary activities	7	(2,833)	(4,309)
<b>Profit for the financial year</b>	18	<b>1,025</b>	8,452

All items dealt with in arriving at operating profit relate to continuing operations

There is no material difference between the profit on ordinary activities before taxation and the profit for the year stated above and their historical cost equivalents

## TMD Friction UK Limited

### Statement of total recognised gains and losses for the year ended 31 December 2011

	Note	2011 £'000	2010 £'000
Profit for the financial year		1,025	8,452
Actuarial (loss)/gain on pension scheme	20	(3,853)	533
Movement on deferred tax relating to pension liability	16	943	(149)
<b>Total recognised (losses)/gains relating to the year</b>	19	<b>(1,885)</b>	<b>8,836</b>

# TMD Friction UK Limited

## Balance sheet as at 31 December 2011

	Note	2011 £'000	2010 £'000
<b>Fixed assets</b>			
Intangible assets	8	44,669	49,892
Tangible assets	9	8,055	8,354
Investments	10	6,765	5,619
		<b>59,489</b>	<b>63,865</b>
<b>Current assets</b>			
Stock	11	5,160	6,592
Debtors	12	56,321	17,838
Cash at bank		3,065	2,869
		<b>64,546</b>	<b>27,299</b>
<b>Creditors - amounts falling due within one year</b>	13	<b>(12,202)</b>	<b>(13,309)</b>
<b>Net current assets</b>		<b>52,344</b>	<b>13,990</b>
<b>Total assets less current liabilities</b>		<b>111,833</b>	<b>77,855</b>
Creditors – amounts falling due after more than one year	14	(9,623)	(3,664)
Provisions for liabilities	15	(78)	(78)
<b>Net assets excluding pension liability</b>		<b>102,132</b>	<b>74,113</b>
Pension liability	20	(4,736)	(3,456)
<b>Net assets</b>		<b>97,396</b>	<b>70,657</b>
<b>Capital and reserves</b>			
Called up share capital	17	64,191	60,000
Share premium	18	24,433	-
Profit and loss account	18	8,772	10,657
<b>Total shareholders' funds</b>	19	<b>97,396</b>	<b>70,657</b>

The financial statements on pages 7 to 30 were approved by the board of directors on 26 March 2012 and were signed on its behalf by



S Firbank  
Director  
Registered Number 4330235

# TMD Friction UK Limited

## Accounting policies

The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom and the Companies Act 2006. A summary of the more important accounting policies is set out below.

### Basis of accounting

The financial statements are prepared on the going concern basis, under the historical cost convention.

### Cash flow statement and related party disclosures

The company is a wholly-owned subsidiary of TMD Friction Holdings (Lux) s a r l and is included in the consolidated financial statements of TMD Friction Group S A , which are publicly available. Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1. The company is also exempt under the terms of FRS 8 from disclosing related party transactions with entities that are part of the TMD Friction Group S A.

### Tangible fixed assets and depreciation

Tangible fixed assets are stated at historic purchase cost less accumulated depreciation.

The cost of tangible fixed assets is their purchase cost, together with any incidental expenses of acquisition. Provision for depreciation and diminution in value including obsolescence and impairment has been made against fixed assets on the bases and at rates calculated to reduce the net book amount of each asset to its estimated residual value, on a straight line basis over its estimated economic life. The estimated economic lives used for this purpose are:

Freehold buildings	40 years
Long leasehold buildings	40 years
<i>Plant and machinery comprising</i>	
Plant and machinery	15 – 18 years
Tooling	3 years
Computer software	5 years
Motor vehicles	4 years

No depreciation is provided on freehold and leasehold land. Tangible fixed assets are not revalued. The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Any impairment in the value of fixed assets is dealt with in the profit and loss account in the period in which it arises.

### Goodwill

Positive goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising in respect of acquisitions is capitalised, classified as an asset on the balance sheet and amortised on a straight line basis over its economic life up to a maximum of 20 years. It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Where the fair value of the separable net assets exceeds the fair value of the consideration for an acquired undertaking, the difference is treated as negative goodwill and is capitalised and amortised through the profit and loss account in the period in which the non-monetary assets are recovered. In the case of fixed assets, this is the period over which they are depreciated, and in the case of current assets, the period over which they are otherwise realised.

### Other intangible assets

Other intangible assets comprise licence fees paid to third parties to register aftermarket product references for or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the profit and loss account in the period.

Costs relating to the Regulation 90 approval of product is capitalised and amortised over a period of 5 years.

# **TMD Friction UK Limited**

## **Accounting policies (continued)**

### **Other intangible assets (continued)**

The recoverable amount of any of the company's assets is determined as the greater of the pre-tax net realisable value and the value in use. In assessing the value in use, the estimated future cash flows generated by the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money for the group. For any assets that do not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

### **Stocks**

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

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

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

Provision is recognised for stock when it is considered that it is slow moving or obsolete, based on the expected future sales of the stock line.

The company recognises capital inventories where tangible fixed assets are purchased and held as spares before being used to replace damaged or worn out assets. These engineering spares are included within raw materials and consumables stocks.

### **Turnover**

Turnover represents the invoiced value of goods despatched and services supplied to customers, excluding value added tax and trade discounts. Turnover is recognised at the point of despatch.

### **Foreign currencies**

Monetary assets and liabilities expressed in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date or at the agreed contractual rate. Transactions in foreign currency are translated at the rate ruling at the date of the transaction. All differences on exchange are taken to the profit and loss account.

### **Leases**

Costs and rental income in respect of operating leases are charged to the profit and loss account on a straight line basis over the lease term. Provision is made when necessary for onerous lease contracts. Provision is made for the cost of the lease together with associated costs less any anticipated sub-lease income. The provision is not discounted.

### **Pensions**

The company operates a defined benefit pension scheme for the benefit of a number of its employees, the assets of which are held separately from those of the independently administered funds.

Annual valuations are prepared by independent professionally qualified actuaries. The last full actuarial valuation was performed as at 31 May 2009. These valuations determine the level of contributions required to fund the benefits set out in the rules of the scheme and allow for the periodic increase in pensions in payment. Following the full adoption of FRS 17, the regular service cost of providing retirement benefits to employees during the year, together with the cost of any benefits relating to past service, is charged to operating profit in the year.

# **TMD Friction UK Limited**

## **Accounting policies (continued)**

### **Pensions (continued)**

A credit representing the expected return on the assets of the scheme during the year is included within other finance expense. This is based on the market value of the assets of the scheme at the start of the financial year. A charge within other finance expense representing the expected increase in the liabilities of the scheme during the year is included within net interest. This arises from the liabilities of the scheme being one year closer to payment.

The difference between the market value of assets and the present value of accrued pension liabilities is shown as an asset or liability in the balance sheet net of deferred tax. Differences between actual and expected returns on assets during the year are recognised in the statement of total recognised gains and losses in the year, together with differences arising from changes in actuarial assumptions.

The company also operated a defined contribution scheme. The pension charge represented contributions payable by the company to the scheme.

### **Post-retirement benefits**

The company provides no other post-retirement benefits to its employees.

### **Taxation**

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

The charge for taxation is based on the results for the year. In accordance with FRS 19, deferred taxation has been recognised as a liability or asset if transactions have occurred at the balance sheet date that give rise to an obligation to pay more taxation in future, or a right to pay less taxation in future. Deferred tax assets are recognised only to the extent that they are regarded as recoverable such that it can be regarded as 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 assets and liabilities recognised have not been discounted.

### **Consolidation**

The company is a wholly-owned subsidiary of TMD Friction Group S A and is included in the consolidated financial statements of TMD Friction Group S A which are publicly available. Consequently, the company has taken advantage of the exemption from preparing consolidated financial statements under the terms of section 400 of the Companies Act 2006.

### **Investments in subsidiaries**

Investments in subsidiary undertakings are recorded at cost plus incidental expenses less any provision for impairment. Impairment reviews are performed by the directors when there has been an indication of potential impairment.

### **Government grants**

Grants are credited to deferred revenue. Grants towards capital expenditure are released to the profit and loss account over the expected useful life of the assets. Grants towards revenue expenditure are released to the profit and loss account as the related expenditure is incurred.

# **TMD Friction UK Limited**

## **Notes to the financial statements for the year ended 31 December 2011**

### **1 Segmental reporting**

<b>Turnover</b>	<b>2011 £'000</b>	<b>2010 £'000</b>
<b>Geographical analysis by destination:</b>		
UK	<b>32,170</b>	32,131
Europe	<b>44,930</b>	47,880
North America	<b>301</b>	395
Rest of World	<b>674</b>	809
	<b>78,075</b>	81,215

The company operates in a single business segment, namely the manufacture and sale of brake pads and liners for the vehicle and brake industry. All turnover originates in the United Kingdom.

# TMD Friction UK Limited

## Notes to the financial statements for the year ended 31 December 2011 (continued)

### 2 Profit on ordinary activities before taxation

	2011 £'000	2010 £'000
Profit on ordinary activities before taxation is stated after charging		
Depreciation charges (note 9)		
- owned tangible fixed assets	1,431	1,231
Amortisation charges (note 8)		
- goodwill	4,368	4,367
- other intangible assets	1,272	333
Operating lease charges (note 21)		
- plant and machinery	331	329
- other	516	252
Auditors remuneration - audit services	40	40
- non audit services	15	15
Restructuring (exceptional)	547	-
Research and development costs	587	492
Exchange loss /(gains)	905	(267)
Loss on disposal of fixed assets	5	41

#### Exceptional items

##### Exchange loss /(gains)

The company paid off €33,000,000 of intercompany loans to TMD Friction Holdings (Lux) GmbH leaving a net intercompany debtor of €45,000,000. Exchange rate movements of €1 16 £1 at 31 December 2010 to €1 20 £1 at 31 December 2011 led to a loss of £1,577,000 in the year, relating to this loan. This loss was offset by gains on other balances denominated in foreign currencies of £672,000 (2010 £267,000). These have been treated as an exceptional financing cost in the year.

##### Restructuring

During the year the company implemented two deficit reduction exercises in relation to the defined benefit pension scheme. The company incurred £475,000 of cost in relation to this exercise which resulted in a reduction in pension scheme liabilities of £1,200,000. Other restructuring costs of £72,000 were also incurred.



## **TMD Friction UK Limited**

### **Notes to the financial statements for the year ended 31 December 2011 (continued)**

#### **3 Directors' emoluments**

	<b>2011</b>	<b>2010</b>
	<b>£'000</b>	<b>£'000</b>
Emoluments (including benefits in kind)	<b>328</b>	<b>155</b>

Retirement benefits are accruing to 3 (2010 2) directors under a defined contribution scheme

The highest paid director received emoluments of £150,000 (2010 £124,000), including £13,000 payments to a money purchase pension scheme

#### **4 Employee costs**

	<b>2011</b>	<b>2010</b>
	<b>£'000</b>	<b>£'000</b>
Wages and salaries	<b>11,687</b>	<b>11,559</b>
Social security costs	<b>1,317</b>	<b>1,075</b>
Other pension costs	<b>781</b>	<b>787</b>
<b>Staff costs</b>	<b>13,785</b>	<b>13,421</b>

#### **5 Employee information**

The average monthly number of persons (including executive directors) employed by the company during the year was

<b>By activity</b>	<b>2011</b>	<b>2010</b>
	<b>Number</b>	<b>Number</b>
Manufacturing	<b>416</b>	<b>443</b>
Administration	<b>99</b>	<b>94</b>
	<b>515</b>	<b>537</b>

# TMD Friction UK Limited

## Notes to the financial statements for the year ended 31 December 2011 (continued)

### 6 Finance expenses

	2011 £'000	2010 £'000
Interest payable on intercompany loans	(1,877)	(1,371)
Foreign exchange (loss)/gains on loans	(905)	267
Other finance income/(costs)	500	(200)
<b>Total finance expenses</b>	<b>(2,282)</b>	<b>(1,304)</b>

### 7 Tax on profit on ordinary activities

	2011 £'000	2010 £'000
<b>Current tax</b>		
Current tax charge for the year	-	-
Adjustments in respect of prior periods	-	-
<b>Total current tax</b>	<b>-</b>	<b>-</b>
<b>Deferred tax</b>		
Adjustments in respect of prior periods	52	901
Origination and reversal of timing differences	2,158	2,941
Adjustments in respect of pensions	623	467
<b>Total deferred tax charge for the year</b>	<b>2,883</b>	<b>4,309</b>
<b>Tax on profit on ordinary activities</b>	<b>2,883</b>	<b>4,309</b>

# TMD Friction UK Limited

## Notes to the financial statements for the year ended 31 December 2011 (continued)

### 7 Tax on profit on ordinary activities (continued)

The tax assessed for the year is lower (2010 lower) from the standard rate of corporation tax in the UK 26.5% (2010 28%). The differences are explained below

	2011	2010
	£'000	£'000
<b>Profit on ordinary activities before taxation</b>	<b>3,858</b>	<b>12,761</b>
Current tax credit on ordinary activities applying the standard rate in the UK of 26.5% (2010 28%)	1,022	3,573
Effects of		
Expenses not deductible for tax purposes	1,215	1,028
(Capital allowances in excess of depreciation) / depreciation in excess of capital allowances	(19)	273
Utilisation of tax losses	(2,218)	(4,874)
<b>Current tax charge for the year</b>	<b>-</b>	<b>-</b>

The standard rate of Corporation Tax in the UK changed from 28% to 26% with effect from 1 April 2011. Accordingly, the company's profits for this accounting period are taxed at an effective rate of 26.5% and will be taxed at 26% in the future.

A number of changes to the UK corporation tax system were announced in the June 2010 Budget Statement. The Finance Act (No 2) 2010 includes legislation to reduce the main rate of corporation tax from 28% to 26% from 1 April 2011. Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 24% by 1 April 2014.

# TMD Friction UK Limited

## Notes to the financial statements for the year ended 31 December 2011 (continued)

### 8 Intangible assets

	Goodwill	Other	Total
	£'000	£'000	£'000
<b>Cost</b>			
At 1 January 2011	86,976	2,550	89,526
Additions during the year	-	417	417
<b>At 31 December 2011</b>	<b>86,976</b>	<b>2,967</b>	<b>89,943</b>
<b>Aggregate amortisation</b>			
At 1 January 2011	38,955	679	39,634
Amortisation during the year	4,368	1,272	5,640
<b>At 31 December 2011</b>	<b>43,323</b>	<b>1,951</b>	<b>45,274</b>
<b>Net book amount at 31 December 2011</b>	<b>43,653</b>	<b>1,016</b>	<b>44,669</b>
Net book amount at 31 December 2010	48,021	1,871	49,892

Positive goodwill of £86,976,000 arose on the transfer of trade and assets of the UK branch of TMD Friction Services GmbH (formerly TMD Friction Europe GmbH) to the company and is being amortised over a period of 20 years, being the period over which the directors have estimated that the value of the underlying business acquired will exceed the value of the underlying assets

During the year the company converted its long term loans with TMD Friction Holdings (Lux) S a r l in equity, see note 17 for further details. As a result of this other intangible assets totalling £815,813 associated with this long term financing have been fully amortised to the profit and loss account in the year

Other intangible assets represent the capitalisation of costs incurred in conforming to and obtaining regulation 90 licences. Regulation 90 licences are required to sell brake pads in the European aftermarket. These costs are amortised over a period of 5 years, which represents the most profitable period of a brake pads life cycle in the aftermarket

# TMD Friction UK Limited

## Notes to the financial statements for the year ended 31 December 2011 (continued)

### 9 Tangible assets

	Freehold land and buildings £'000	Long leasehold land and buildings £'000	Plant and machinery £'000	Total £'000
<b>Cost</b>				
At 1 January 2011	1,926	424	13,417	15,767
Additions	6	-	1,146	1,152
Disposals	-	-	(918)	(918)
<b>At 31 December 2011</b>	<b>1,932</b>	<b>424</b>	<b>13,645</b>	<b>16,001</b>
<b>Accumulated depreciation</b>				
At 1 January 2011	250	106	7,057	7,413
Charge for the year	69	12	1,350	1,431
Disposals	-	-	(898)	(898)
<b>At 31 December 2011</b>	<b>319</b>	<b>118</b>	<b>7,509</b>	<b>7,946</b>
<b>Net book value at 31 December 2011</b>	<b>1,613</b>	<b>306</b>	<b>6,136</b>	<b>8,055</b>
Net book value at 31 December 2010	1,676	318	6,360	8,354

# TMD Friction UK Limited

## Notes to the financial statements for the year ended 31 December 2011 (continued)

### 10 Investments

	Interests in group undertakings £000
<b>Cost</b>	
At 1 January 2011	5,619
Additions	1,146
<b>At 31 December 2011</b>	<b>6,765</b>

In April 2011 the company acquired TMD Friction S A (Pty) formerly Montistep (Pty) Ltd for £1,080,000. The remaining additions relate to additional fees for acquisitions during 2010.

The company owns the whole of the issued share capital of the following companies:

Name of undertaking	Country of incorporation	Principal activity	Description of Shares held
Ribbonpark Limited	England and Wales	Dormant	Ordinary £1 shares
Eurofriction Limited	Scotland	Brakepad manufacturer	Ordinary £1 shares
TMD Friction S A (Pty)	South Africa	Brakepad manufacturer	Ordinary £1 shares

The directors believe that the company value of the investments is supported by their underlying net assets.

### 11 Stocks

	2011 £'000	2010 £'000
Raw materials	1,763	2,403
Work in progress	98	92
Finished goods	3,299	4,097
	<b>5,160</b>	<b>6,592</b>

# TMD Friction UK Limited

## Notes to the financial statements for the year ended 31 December 2011 (continued)

### 12 Debtors

	2011 £'000	2010 £'000
Trade debtors	7,599	6,959
Amounts owed by group undertakings	47,445	7,347
Deferred tax asset (note 16)	1,149	3,359
Prepayments and accrued income	128	173
	<b>56,321</b>	<b>17,838</b>

Trade amounts owed by group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand. Short term loan amounts owed by group undertakings are unsecured, have no fixed date of repayment and are repayable on demand. Interest is charged at 6% on Euro denominated loan of €45,145,360 and 1.6% on GBP denominated loan of £3,031,222.

### 13 Creditors – amounts falling due within one year

	2011 £'000	2010 £'000
Trade creditors	4,961	5,204
Amounts owed to group undertakings	2,164	3,509
Taxation and social security	905	630
Other creditors	3,404	3,070
Accruals and deferred income	768	896
	<b>12,202</b>	<b>13,309</b>

Amounts due to group undertakings are unsecured, interest free and repayable on demand.

## TMD Friction UK Limited

### Notes to the financial statements for the year ended 31 December 2011 (continued)

#### 14 Creditors – amounts falling due after more than one year

	2011	2010
	£'000	£'000
Group loan notes	9,623	3,664

The loan notes are unsecured and interest is charged at the rate of 11.5% per annum. There is no fixed date of repayment.

During the year the long term loan with TMD Friction Holdings (Lux) S a r l of €33,531,550 was converted into equity. See note 17 for further details.

#### 15 Provisions for liabilities

	Provisions for onerous lease £'000
At 1 January 2011	78
Credited to the profit and loss account	-
At 31 December 2011	78

The provision for onerous lease comprises an outstanding lease rental on a sublet property. Full provision has been made for the residual lease commitments for the remaining period of the lease, which runs until November 2012. Full provision has been made based on management's best estimate to cover both lease payments and dilapidations.



# TMD Friction UK Limited

## Notes to the financial statements for the year ended 31 December 2011 (continued)

### 16 Deferred taxation

The provided and unprovided amounts of deferred taxation for timing differences are as follows

	2011		2010	
	Provided £'000	Unprovided £'000	Provided £'000	Unprovided £'000
Trading losses	1,216	-	3,374	6
Accelerated capital allowances	(67)	-	(15)	-
<b>Deferred tax asset</b>	<b>1,149</b>	<b>-</b>	<b>3,359</b>	<b>6</b>

A deferred tax asset has been recognised against the pension liability (note 20)

The company have assessed the future budgets and forecasts and have concluded that it is more likely than not that the losses will be recovered

The movement in the total deferred tax provided, including the deferred tax asset in respect of pensions, may be summarised as follows

	2011			2010		
	Pensions £'000	Other £'000	Total £'000	Pensions £'000	Other £'000	Total £'000
At 1 January	1,344	3,359	4,703	1,960	7,201	9,161
Charged to the profit and loss account	(623)	(2,210)	(2,833)	(467)	(3,842)	(4,309)
Credited/(charged) to the statement of total recognised gains and losses	943	-	943	(149)	-	(149)
<b>Total deferred tax asset</b>	<b>1,664</b>	<b>1,149</b>	<b>2,813</b>	<b>1,344</b>	<b>3,359</b>	<b>4,703</b>

The impact of the change in tax rate on the deferred tax balances is not material

## **TMD Friction UK Limited**

### **Notes to the financial statements for the year ended 31 December 2011 (continued)**

#### **17 Called up share capital**

	<b>2011</b>	<b>2010</b>
	<b>£'000</b>	<b>£'000</b>
<hr/>		
<b>Authorised</b>		
100,000,000 (2010 100,000,000) ordinary shares of £1 each	<b>100,000</b>	100,000
<hr/>		
<b>Allotted and fully paid</b>		
64,191,000 (2010 60,000,000) ordinary shares of £1 each	<b>64,191</b>	60,000
<hr/>		

In November 2011, TMD Friction UK Limited repaid €33,531,550 of intercompany loans. This was financed by issuing 4,191,000 £1 ordinary shares on 14 December 2011 with a share price of €8 per share. All of the shares were acquired by TMD Friction Holdings (Lux) S a r l who own 100% of TMD Friction UK Limited shares.

# TMD Friction UK Limited

## Notes to the financial statements for the year ended 31 December 2011 (continued)

### 18 Reserves

	Share premium £'000s	Profit and loss account £'000
At 1 January 2011	-	10,657
Profit for the financial year	-	1,025
Share premium arising on issue of shares	24,433	-
Actuarial loss on pension scheme	-	(3,853)
Movement on deferred tax relating to pension liability	-	943
<b>At 31 December 2011</b>	<b>24,433</b>	<b>8,772</b>

In November 2011, TMD Friction UK Limited repaid €33,531,550 of intercompany loans. This was financed by issuing 4,191,000 £1 ordinary shares on 14 December 2011 with a share price of €8 per share. All of the shares were acquired by TMD Friction Holdings (Lux) S a r l who own 100% of TMD Friction UK Limited shares.

### 19 Reconciliation of movements in shareholders' funds

	2011 £'000	2010 £'000
Profit for the financial year	1,025	8,452
Actuarial (loss)/gain on pension scheme	(3,853)	533
Movement on deferred tax relating to pension liability	943	(149)
Proceeds of issue of share capital	4,191	-
Share premium arising on issue of shares	24,433	-
<b>Net additions to shareholders' funds</b>	<b>26,739</b>	<b>8,836</b>
<b>Total shareholders' funds as at 31 December</b>	<b>97,396</b>	<b>70,657</b>

# TMD Friction UK Limited

## Notes to the financial statements for the year ended 31 December 2011 (continued)

### 20 Pension commitments

TMD Friction UK Limited sponsors the TMD Friction UK Pension Scheme which provides both defined benefit and defined contribution benefits. The defined benefit section of the scheme provided final salary benefits prior to 1 February 2004, and also has provided benefits based on career average related earnings (CARE) since that date.

The latest actuarial valuation of the defined benefits scheme is being carried out at 31 March 2011. The provisional results of this valuation have been updated to 31 December 2011 by a qualified actuary for the purposes of these accounts.

The company contributes £2,500,000 (2010: £2,300,000) to the pension scheme to cover current service costs and as part of the deficit reduction plan agreed with the Trustees.

During the year the company undertook a deficit reduction exercise which comprised of a Enhanced Transfer Value (ETV) offer to deferred members and a Pension Increase Exchange (PIE) exercise offered to existing pensioners. This resulted in a reduction in deficit of £500,000 during the year. It is anticipated that a further reduction will result from the completion of both the ETV and PIE during 2012.

The major assumptions used by the actuary in measuring the present value of the TMD Friction UK Pension Plan's liabilities were:

	2011	2010	2009	2008	2007
Rate of increase in salaries	N/A	N/A	N/A	N/A	N/A
Rate of pre 6 April 1997 pensions increase	3.00	3.30	3.35	2.85	3.10
Rate of post 6 April 1997 pension increases	3.00	3.30	3.35	2.85	3.10
Rate of post 6 April 2003 pension increases	3.00	3.30	3.35	2.85	3.10
Rate of post 6 April 2009 pension increases	2.25	2.85	2.30	2.10	2.20
Discount rate	4.80	5.40	5.70	6.30	5.85
Inflation assumption	2.25	2.90	3.50	2.90	3.20

# TMD Friction UK Limited

## Notes to the financial statements for the year ended 31 December 2011 (continued)

### 20 Pension commitments (continued)

The total assets and liabilities in the schemes and the expected rates of return are

	2011	2010	2011	2010
	%	%	£'000	£'000
Bonds	3.9	6.5	100	21,700
Equities	6.0	-	400	-
Diversified growth fund	5.0	5.4	50,600	29,900
Cash	0.5	0.5	200	300
Total market value of scheme assets			51,300	51,900
Present value of scheme liabilities			(57,700)	(56,700)
Deficit in the scheme			(6,400)	(4,800)
Related deferred tax asset			1,664	1,344
<b>Net pension liability</b>			<b>(4,736)</b>	<b>(3,456)</b>

Analysis of the amounts charged to the profit and loss account	2011	2010
	£'000	£'000

#### Charged to operating profit:

Current service cost	500	400
<b>Net charged to operating profit</b>	<b>500</b>	<b>400</b>

#### Charged to other financial expense.

Expected return on pension scheme assets	(3,000)	(2,800)
Interest on pension scheme liabilities	3,000	3,000
Past service cost	(300)	-
Settlement cost	(200)	-
<b>Finance (income)/expense</b>	<b>(500)</b>	<b>200</b>

The company also operated a defined contribution scheme during the period. The total amount charged to the profit and loss account in respect of this scheme was £326,000 (2010: £304,000).

# TMD Friction UK Limited

## Notes to the financial statements for the year ended 31 December 2011 (continued)

### 20 Pension commitments (continued)

Statement of total recognised gains and losses	2011 £'000	2010 £'000
Actual return less expected return on pension scheme assets	(3,400)	1,500
Change in assumptions underlying the present value of the scheme liabilities	(453)	(967)
Actuarial (loss)/gain recognised in statement of total recognised gains and losses	(3,853)	533
Cumulative actuarial (loss)/gain recognised in statement of total recognised gains and losses	(1,820)	2,033

Movement in deficit during the year	2011 £'000	2010 £'000
Deficit in scheme at beginning of the year	(4,800)	(7,000)
Movement in year		
Current service cost	(500)	(400)
Contributions paid	2,253	2,267
Other finance costs	500	(200)
Actuarial (loss)/gain	(3,853)	533
Deficit in scheme at end of the year	(6,400)	(4,800)

Experience gains and losses for the year to 31 December	2011	2010	2009	2008	2007
<b>Difference between expected and actual return</b>					
Amount (£'000)	(3,400)	1,500	3,500	(7,100)	300
Percentage of scheme assets	6.6%	2.9%	7.4%	16.8%	0.6%
<b>Experience gains on scheme liabilities</b>					
Amount (£'000)	1,500	-	-	(600)	-
Percentage of the present value of the scheme liabilities	2.6%	-	-	1.35%	-
<b>Total included in statement of total recognised</b>					
Amount (£'000)	(3,853)	533	(5,700)	(5,000)	6,500
Percentage of the present value of the scheme liabilities	6.7%	0.9%	10.5%	11.3%	14.2%

# TMD Friction UK Limited

## Notes to the financial statements for the year ended 31 December 2011 (continued)

### 20 Pension commitments (continued)

The mortality tables used as at 31 December 2011 have been updated to match those used in the 2011 valuation and are namely the SAPS year of birth standard tables rated by 120% for male members and 105% for female members with an allowance for the long cohort effect subject to a minimum improvement of 1% pa. The life expectancy implied by these tables for typical members are

	2011	2010
Longevity at age 65 (60 in 2010) for current		
– Men	21.2	22.0
– Women	25.1	25.2
Longevity at age 65 (60 in 2010) for future pensioners		
– Men	23.2	24.0
– Women	27.0	27.1

#### Sensitivity analysis of scheme liabilities

The sensitivity of the present value of scheme liabilities to changes in the principle assumptions used is set out below

	Change in assumption	Impact on scheme liabilities
Discount rate	0.1%	£1.1m
Rate of inflation	0.1%	£1.0m

### 21 Financial commitments

At 31 December 2011 the company had annual commitments under non-cancellable operating leases expiring as follows

	2011		2010	
	Land and buildings	Other	Land and buildings	Other
	£'000	£'000	£'000	£'000
Within one year	319	220	252	342
Between two and five years	275	65	59	174
After five years	20	-	20	-
	<b>614</b>	<b>285</b>	<b>331</b>	<b>516</b>

## **TMD Friction UK Limited**

### **Notes to the financial statements for the year ended 31 December 2011 (continued)**

#### **22 Ultimate parent undertaking**

The immediate parent undertaking is TMD Friction Holdings (Lux) S a r l

The ultimate parent undertaking and controlling party, until 29 November 2011, was TMD Friction Group S A , which is the parent undertaking of the largest and smallest group that consolidate these financial statements. The TMD Friction Group S A accounts are available from The secretary, TMD Friction Group S A , 46a Avenue J F Kennedy, 1855, Luxembourg.

On 29 November 2011 Pamplona Capital Partners II L P , completed the sale of all its shares in TMD Friction Group S A to Nisshinbo Holdings Incorporated, a Japanese listed entity. The directors now consider Nisshinbo Holdings Incorporated to be the controlling party by virtue of its 100% ownership of the share capital of TMD Friction Group S A.