

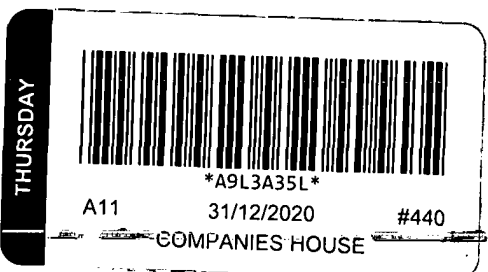
Company No. 872948

Annual Report and Financial Statements

ZF Automotive UK Limited

(formerly TRW Limited)

For the Year Ended 31 December 2019



Officers and professional advisers

Company registration number

872948

Directors

SM Batterbee
J Braithwaite
AM McQueen
DE Shattock

Registered Office

Stratford Road
Solihull
West Midlands
England
B90 4GW

Auditor

Ernst & Young LLP
No. 1 Colmore Square
Birmingham
B4 6HQ

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The directors present a strategic report, a director's report, and financial statements for the year ended 31 December 2019.

On 27 February 2020 the company changed its name to ZF Automotive UK Limited, it was formerly known as TRW Limited.

Strategic report

The company operates as a part of the ZF Friedrichshafen AG (ZF) group of companies, the ZF group. ZF Friedrichshafen AG ranks among the world's largest and most diversified suppliers of automotive systems, modules and components to global automotive original equipment manufacturers (OEMs) and related aftermarket. The operations of the ZF group primarily encompass the design, manufacture and sale of active and passive safety related products. The ZF group of companies are primarily Tier 1 suppliers, with a very large proportion of its end-customer sales made to major OEMs. The company's strategy is to continue to focus on products where we have a technological advantage. The ZF group has extensive technical experience in a focused range of safety related product lines and strong system integration skills. These traits enable the ZF group to provide comprehensive, system-based solutions for our OEM customers. As a part of the ZF group, the company shares this expertise. A good indication of the company's focus on technological advantage is in its ability to develop new designs and products.

Section 172 statement and stakeholder interests

A statement pursuant to Section 172 of the Companies Act 2006 is required content for the first time in these statutory accounts. The primary duty of the directors under Section 172 is to act in the way they consider would be most likely to promote the success of the company for the benefit of its shareholders as a whole and to do so having regard as appropriate to certain statutory factors and other relevant matters.

All director decisions are made with the company's long-term success in mind and the directors have regard to a broad range of matters including the voice of stakeholders. Set out below is specific commentary in relation to each of the Section 172 factors:

The likely consequences of any decision in the long-term

The company has adopted a three years strategic plan as well as short term forecasts, all of which are discussed with and approved by divisional and group management. The directors also review investment decisions with a long-term view, usually 5 years.

The desirability of maintaining a reputation for high standards of business conduct

The company is careful of its reputation and decisions reflect this and the great importance attached to the reputation by all key stakeholders. The company demands high standards of conduct from all directors and employees and expects management to be mindful of how and with whom business is conducted. This includes overseeing an annual reporting and certification process to ensure all relevant employees are aware of the high standards set in this regard and a mechanism to notify the company of any shortcomings, including a "whistle-blowing" hotline.

Strategic report (continued)

Section 172 statement and stakeholder interests (continued)

The interests of the company's employees

The company depends on its employees for its success and invests considerable time and resources on employee engagement, training and development. The directors and management team strive to maintain and develop a culture where everyone feels valued and included.

Equality and equal opportunities are vital for the company's success. The company supports a wide variety of social cultures and nurtures employees regardless of their personal attributes. The company promotes an integrative working environment and an open work culture that respects, values and encourage individual differences.

Applications for employment from disabled people are given full and fair consideration bearing in mind the aptitudes and abilities of each person in relation to the requirements of the job. Employees who become disabled during service and are unable to carry out the work for which they were employed receive individual attention. Wherever possible, arrangements are made for their continued employment and they may be eligible for special training if there is a particular individual need. Disabled people have the same training, career development and promotion opportunities as all other employees.

Health and safety of our employees is of paramount importance and receives appropriate director and management attention and investment. Reflecting this importance, the directors measure and track performance closely. As an example, the company also issues quarterly newsletters to employees covering health and safety issues, holds monthly meetings on health and safety, has health and safety bulletin boards and collaborates with the insurance broker in providing health and safety training.

It is the policy of the company to develop employee involvement and maintain an active dialogue with them, given how important they are to the success of the company and group. Some of the channels we use to facilitate this dialogue include employee surveys, employee recognition scheme to reward employees who identify issues avoiding potential accidents and annual training for all employees on health and safety. The directors use the data generated from this to continually improve our organization, if specific local issues are identified, the directors undertake further work to gather more detail and then implement appropriate measures to drive improvement.

The ZF group has a ZF wide intranet that is available to all employees and this is kept up to date with not only policy changes, but financial results and other announcements.

Training and development of employees is important to the directors with management and leadership training courses available alongside training programmes for specific qualifications being available to employees.

Pension scheme participants benefit from the ZF group's approach to pension provision and financial prudence in respect of the scheme as seen in 2018 through the merger of the ZF Lemforder, ZF Services and the TRW defined benefit pension schemes.

Strategic report (continued)

Section 172 statement and stakeholder interests (continued)

The need to foster business relationships with suppliers, customers and others

Customer service and value are at the core of our business model and strategy. The directors monitor indicators of the customer experience and welcomes the increased emphasis on the customer which management is building.

The company works closely with partners including suppliers, distributors and agents who are closely managed from a commercial and compliance perspective. The directors' also review and approve the company's approach to suppliers and follows a strategy of having mutually beneficial long-term relationships with them. The policy is to agree terms of trading (including payment) and to abide by them.

The impact of operations on the community and the environment

The company is committed to dealing with the community, customers, business partners, employees and the environment in a reliable and respectful manner, and makes a positive contribution to the local community as an employer, including offering apprenticeships and employee training and community activities, which includes charitable activity and donations. This implies lawful, honest, responsible behaviour at every level and in all areas as the core value of the group's corporate culture. The company promotes professional conduct and minimize the risks of misconduct through a group-wide compliance management system focused on preventing and detecting compliance cases as well as on responding quickly and effectively to potential violations.

ZF's group code of conduct lays down mandatory group-wide principles for correct, legally compliant and ethical behaviour. The code requires legal compliance and fair competition, and addresses key issues such as human rights, anti-corruption activities, economic and social responsibility, product compliance, workplace safety, data privacy and transparency. The code is incorporated in our compliance management system and is available in more than 25 languages. The company does not tolerate violations of applicable legislation, it's code of conduct, internal guidelines or, above all, the company's values.

The company's responsibility for environmental protection as well as the safety of employees and partners is reflected in the ZF groups' environment, health and safety (EHS) policy approved by the group's board of management as well as corresponding targets, which are publicly disclosed in the annual group report and financial statements. The company also monitors minimising our impact on the environment with energy and waste initiatives. Continued progress depends upon the directors driving such initiatives and channelling investment to projects with due regard for the environment.

The need to act fairly between shareholders of the company

The directors understand the importance of treating shareholders fairly. The company has only one class of share in issue and all shareholders individually enjoy the same shareholder rights as the others.

Strategic report (continued)

Principal risks and uncertainties

The principal risks for the company are:

- 1) The uncertainties associated with the trading conditions principally affected by the prevailing automotive climate. For the year ended 31 December 2019 the following is a brief description of the current economic conditions that affect the United Kingdom (UK) subsidiaries of the ZF group, including ZF Automotive UK Limited.

The Automotive Industry Climate:

In 2019, global economic growth witnessed a wide-spread downturn with the growth rate slumping to 3%. This has been the lowest recorded growth since the financial crisis of 2008/2009. The reason behind the stagnation was that the economic climate has remained subdued over the last two years in the face of a decline in trading and investment activities alongside increasing political uncertainties.

In most industrialised countries, GBP growth in 2019 was down on last year, for the company's main markets the Eurozone's GDP declined by 1.2%, in the US by 2.3%, and in China by 6.2%, however in the UK GDP increased negligibly by 0.01%. The decline in industrial production due to global trade tensions and political uncertainties was a major contributor to the significant drop in global vehicle production. In 2019 international financial markets were also impacted by shifting political risk assessments as well as the monetary policy decisions of the major central banks, particularly the US Federal Reserve and the European Central Bank who both cut interest rates significantly in the year.

In ZF's group core automotive regions, the global production of passenger cars declined by 6% to 89 million vehicles causing virtually all markets to see a recession. UK car production fell for the third consecutive year down 14.2 % to 1.3 million vehicles, it's lowest level since 2010.

Looking forward the impact of Brexit has yet to be fully assessed given the uncertainty over negotiations regarding a future trade deal between the UK and the EU. All of which has now been subsumed by the current COVID-19 global health pandemic, the economic effects of which at the moment, cannot be fully assessed, however, the prospects for the global economy and most industrialised economies, will probably be in a 'once in a lifetime' negative economic event of significant proportions. In this regard the company has taken advantage of the UK Governments job retention and furlough schemes to receive grants that will benefit it's 2020 and 2021 results.

- 2) Liquidity, foreign currency, and counterparty risks as well as credit risks are monitored, controlled and, if necessary, hedged as part of central risk management in order to ensure the ZF group's and company's financial stability. The ZF group will monitor the individual risk types and ensure necessary contingencies are put in place to mitigate any particular risk. Wherever possible and expedient, derivative financial instruments to hedge existing underlying or planned transactions are used to manage currency risks. In order to reduce counterparty risks within finance, all transactions are carried out only with banks having a first-class credit rating and as part of centrally stipulated limits. The necessary financial flexibility is guaranteed by means of central cash pooling with sufficient cash and confirmed credit lines with matching maturities. The financial stability of our suppliers and customers is continually checked. If necessary, measures are initiated to safeguard the supply chain or receivables.

Strategic report (continued)

Company efforts in response to risk and uncertainties

The company continues to focus on reduction of cost, in order to compensate for potential volume reduction. The company will continue to monitor the condition of our customer and supplier bases in the current economic climate, in order to evaluate whether additional actions may be necessary.

The company also continues to mitigate as far as possible currency risk by the use of hedging activities. In the medium term, higher demand for safety products with increased electronics content is likely to benefit the company.

Risk arises from fluctuations in foreign currency exchange rates, and commodity prices. The company manages foreign currency exchange rate risk by utilising various derivative instruments and limit the use of such instruments to hedging activities. The company does not use such instruments for speculative or trading purposes. If it did not use derivative instruments, the exposure to such risk would be higher. The company is exposed to credit loss in the event of non-performance by the counterparty to the derivative financial instruments. It attempts to limit this exposure by entering into agreements directly with a number of major financial institutions that meet our credit standards and that are expected to fully satisfy their obligations under the contracts.

BY ORDER OF THE BOARD



AM McQueen
Director
23rd December 2020

Report of the directors

Directors

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

SM Batterbee
 J Braithwaite
 F Chittka (resigned 31 December 2019)
 AM McQueen
 DE Shattock
 MJ Way (resigned 31 December 2019)

Directors' interests

None of the directors had any declarable interests in shares of any group companies in the UK at 31 December 2019.

Directors' indemnities

During the year an indemnity from the company was available to the directors against liabilities incurred by them in defending proceedings against them in relation to the affairs of the company. The indemnity is subject to the provisions of the Companies Act and is set out in the Articles of Association.

Results and dividends

The trading results for the year and the company's financial position at the end of the year are shown in the attached financial statements and are disclosed further in the financial review below.

On 29 March 2019 the company concluded a sale and purchase agreement with a fellow UK group undertaking ZF Services UK Limited of its Aftermarket businesses located at Wrexham and Shirley in Birmingham. ZF Services UK Limited assumed the total trade and business of these two operations for consideration of £73.4 million, resulting in an exceptional gain on disposal of £23.8 million.

In May 2019 the ultimate parent undertaking ZF Friedrichshafen AG became the principal cash pool holder for all UK subsidiary companies with accounts at Deutsche Bank. From this date all Pound Sterling, US Dollar, and Euro cash pools attract inter-company interest. At the 31 December 2019 the following rates and benchmark per currency were as follows:

	Deposits	Overdrafts	Benchmark
Pounds Sterling	0.95+	0.50-	SONIA
Euro	0.95+	0.20-	EONIA
US Dollar	0.95+	0.50-	US SOFR

The SONIA benchmark used are the overnight deposit swap rates, whilst for US SOFR it is the secured overnight financing rates.

Report of the directors (continued)

Results and dividends (continued)

The directors have carried out an impairment review of the fixed assets investments in accordance with IAS 36. The impairment review was carried out by comparing fixed asset books values with the discount value of forecast future cash flows for all its trading operations. The forecast future cash flows were arrived at using the company's three year strategic plan, with appropriate sensitivities. The cash flows were discounted at a rate appropriate to the business.

On 19 December 2019 an inter-company loan note receivable totalling £110.0 million due from a fellow group undertaking TRW Deutschland Holdings GmbH, was settled in full. No dividends have been declared for the financial year 2019 (2018 - £44.2 million).

Events after the balance sheet date

On 11 March 2020, the World Health Organization raised the public health emergency situation caused by the outbreak of the coronavirus (COVID-19) to an international pandemic. The rapid evolution of events, nationally and internationally, represents an unprecedented health crisis, which will impact the macroeconomic environment and the evolution of business. The company considers that these events do not require an adjustment in the annual accounts for the year ended 31 December 2019. However, during 2020 they have had an impact on the wider ZF group's operations and on its results and future cash flows. However, the impact has been less than originally forecasted due to actual lower reductions of vehicle volumes than expected during 2020. Also, the introduction of new ZF Group transfer pricing agreements for 2021 for the manufacturing locations, should lead to positive contributions for all the product lines. The company, and wider ZF group, are continuing to take the necessary steps in order to face the situation and minimize its impact.

On 27 April 2018 a High Court case determined that the Guaranteed Minimum Pension (GMP: this is the portion of pension that was accrued by individuals who were contracted out of the second tier of state pension provision prior to 6 April 1997) needed to be equalised due to the inequality of this benefit between some male and female members. This led to the costs of equalisation being recognised as a past service cost in the 2018 annual report and financial statements. On 20 November 2020 the High Court published a further judgment in this case focussing on the treatment of historic transfer payments. The judgment stated that top-up payments are required for some transfer payments made since 1990. An estimate of this additional liability has yet to be calculated, it's recognition will be disclosed in the 2020 company annual report and financial statements.

On 29 September 2020 the indirectly owned subsidiary undertaking ID Information Systems Limited was dissolved via a voluntary strike-off from the register at Companies House.

On 1 December 2020 the indirectly owned subsidiary undertaking TRW LucasVarity Electric Steering Limited was dissolved via a voluntary strike-off from the register at Companies House.

On 2 December 2020 the ZF group has announced the proposed potential closure of the company's Sunderland manufacturing facility at the end of 2021. Until this time, the facility will continue production.

Report of the directors (continued)

Financial performance

Financial performance for the year has been analysed as follows:

	Year to 31 December 2019 £m	Year to 31 December 2018 £m	Change £m	%
Turnover	849.6	336.4	513.2	153
Operating profit/(loss)	67.6	(11.2)	78.8	704
Profit before tax	82.0	5.3	76.7	1,447

Turnover

Sales in 2019 increased by £513.2 million on the past year million due primarily to the transfer of business of the two businesses located at Peterlee and Sunderland from 1 January 2019, these businesses accounted for £586.7 million of the increase. Sales at the legacy operations were down 10.4% reflecting a loss of some business lines at some sites, coupled with other reduced volumes and pricing pressures. The decrease year on year was also impacted by the sale of the two Aftermarket businesses in March 2019 to a fellow group undertaking.

Operating profit and profit before tax

Operating profit improved by £78.8 million, primarily attributable to the integration of the businesses located at Peterlee and Sunderland. The North East business which has been growing steadily for a number of years contributed £44.8 million to this profitability. Although the company has lost the profitability of the two Aftermarket businesses, the company is still investing materially in future Research and Development technologies some which is currently non-recoverable, whilst the remaining sites have improved their operating performance by a combination of remedial actions on both production and costs.

The company recorded an exceptional gain of £24.0 million on the disposal of its aftermarket operations located at Wrexham and Shirley Birmingham on 29 March 2019 to ZF Services UK Limited a fellow UK group undertaking.

Research and development

The company continues to commit funds to core and application engineering research and development.

The total for the year was £42.4 million (2018 - £42.0 million).

Charitable donations

During the year donations to universities, other educational establishments and charities amounted to £448 (2018 - £800). No payment was made to any political party.

Report of the directors (continued)

Going concern

The financial statements have been prepared on a going concern basis which assumes the company will continue in operational existence for the foreseeable future. As of 31 December 2019, the company had net current assets of £80.7 million (2018 – net current liabilities £75.3 million) and net assets of £602.5 million (2018 – £540.3 million). The business consists of several manufacturing units and also headquarter and engineering functions which service both the United Kingdom and other global jurisdictions.

The directors' have maintained a continual dialogue with group management during the pandemic in terms of issues of solvency and going concern, and were reassured when the group obtained a new credit facility of Euros 1.3 billion from three banks BNP Paribas, Deutsche Bank and JP Morgan which was secured at the end of April 2020. The credit facility increases the scope of the group's liquidity. The group has also agreed with its banking consortium to adjust its financial covenants which gives it additional headroom and security to cope with the economic impact of the pandemic.

The company has obtained a letter of financial support from the ultimate parent undertaking ZF Friedrichshafen AG covering a period of twelve months following the approval of these financial statements up until 31 December 2021. Along with the current cash resources of the company and the directors' forecasting of future cash flows into and out of the company, which has included stress testing these forecasts given the current economic uncertainty of COVID-19; the directors have sufficient assurance that the company is able to meet its liabilities as they fall due for a period of at least 12 months from the date of approval of these financial statements, and that ZF Friedrichshafen AG has sufficient financial resources to provide the funds detailed in the letter of financial support.

On this basis the directors have prepared the financial statements on a going concern basis which assumes the company will continue in operational existence for the foreseeable future.

Disclosure of requirement to appoint auditors

The auditors, Ernst & Young LLP, will be proposed for reappointment in accordance with Section 485 of the Companies Act 2006.

Directors' statement as to disclosure of information to auditors

Each of the directors who were members of the board at the time of approving the directors' report confirms that:

- to the best of their knowledge and belief, there is no information relevant to the preparation of their report of which the company's auditors are unaware; and
- they have taken all steps that a director might reasonably be expected to have taken to be aware of the relevant audit information and to establish that the auditors are aware of that information.

BY ORDER OF THE BOARD



AM McQueen
Director

23rd December 2020

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and 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.

Report of the independent auditor to the members of ZF Automotive UK Limited

Opinion

We have audited the financial statements of ZF Automotive UK Limited for the year ended 31 December 2019 which comprise the Income Statement, Other Comprehensive Income Statement, Statement of Changes in Equity, the Balance Sheet, and the related notes 1 to 26, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

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

Emphasis of matter – impact of COVID-19

We draw attention to note 2.3 and 26 to the financial statements which describes:

- i. the basis on which the directors have concluded on going concern; and
- ii. the impact post balance sheet events may have on the company's level of future profitability and ability to continue trading as a going concern.

Our opinion is not modified in respect of this matter.

Report of the independent auditor to the members of ZF Automotive UK Limited (continued)

Conclusions relating to going concern

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

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

Other information

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

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Report of the independent auditor to the members of ZF Automotive UK Limited (continued)

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 13, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Report of the independent auditor to the members of ZF Automotive UK Limited (continued)

Use of our report

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

Ernst & Young LLP

Helen McLeod-Jones (senior statutory auditor)
for and on behalf of Ernst & Young LLP,
Statutory Auditor
Birmingham
23rd December 2020

Income statement

	Note	2019 £000	2018 £000
Turnover			
Continuing operations	3	251,098	282,909
Transfer of business and trade – acquisition		585,957	–
Transfer of business and trade – disposal		12,553	53,471
		<u>849,608</u>	<u>336,380</u>
Cost of sales		(754,626)	(290,943)
Gross profit		<u>94,982</u>	<u>45,437</u>
Distribution costs		(7,501)	(5,036)
Administrative expenses		(73,397)	(73,608)
Other operating income		29,699	27,501
Operating (loss) - continuing operations		(3,087)	(10,971)
Operating profit - acquisitions		44,804	–
Operating profit - disposals		2,066	5,265
		<u>43,783</u>	<u>(5,706)</u>
Operating profit / (loss) before exceptional items			
Exceptional items:			
Gain on transfer of business and trade	6	23,958	–
		<u>67,582</u>	<u>(11,200)</u>
Operating profit/(loss)	4,5		
Interest receivable and similar income	7	18,513	17,128
Interest payable and similar charges	8	(3,980)	(533)
Other finance costs	9	(88)	(94)
		<u>82,027</u>	<u>5,301</u>
Profit on ordinary activities before taxation			
Tax charge on profit on ordinary activities	10	(10,774)	(3,606)
		<u>71,253</u>	<u>1,695</u>
Profit for the financial year			

Statement of comprehensive income

	2019 £000	2018 £000
Profit for the financial year	71,253	1,695
Items that cannot be reclassified to profit and loss:		
Actuarial re-measurement loss on defined benefit pension plan	(29,975)	(49,691)
Deferred tax credit	5,190	15,868
Actuarial re-measurement gains on defined benefit medical plans	224	433
Items that can be reclassified to profit and loss:		
Cash flow hedges:		
Reclassification for gains or losses included in the profit and loss	(4,965)	5,478
Gains or losses arising during the year	23,693	3,096
Deferred tax (charge)/credit associated with gains or losses on cash flow hedges	(3,220)	(279)
Total comprehensive expense for the year - net of tax	(9,053)	(25,095)
Total gains/(losses) for the year	62,200	(23,400)

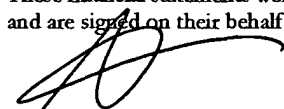
Statement of changes in equity

	Share capital £000	Share premium account £000	Capital reserve £000	Cash flow hedge reserve £000	Profit and loss account £000	Total share- holders' equity funds £000
At 1 January 2018	125,001	249,244	121,658	(429)	113,246	608,720
Retained profit for the year	—	—	—	—	1,695	1,695
Other comprehensive income	—	—	—	8,295	(33,390)	(25,095)
Reclassification of gains and losses	—	—	—	(8,501)	8,501	—
Transfer of trade / business	—	—	—	(851)	—	(851)
Distribution in specie	—	—	—	—	(44,199)	(44,199)
At 31 December 2018 and 1 January 2019	125,001	249,244	121,658	(1,486)	45,853	540,270
Realisation of capital reserve	—	—	(121,658)	—	121,658	—
Retained profit for the year	—	—	—	—	71,253	71,253
Other comprehensive income	—	—	—	15,508	(24,561)	(9,053)
At 31 December 2019	125,001	249,244	—	14,022	214,203	602,470

Balance sheet

	Note	2019 £000	2018 £000
Fixed assets			
Right of use assets	11	12,745	—
Tangible assets	11	119,917	124,069
Intangible assets	12	2,236	2,742
Net defined benefit pension plan surplus	20	414,663	433,778
		<u>549,561</u>	<u>560,589</u>
Current assets			
Stocks	14	42,062	45,455
Debtors: amounts falling due in less than one year	15	602,161	421,453
Cash at bank and in hand		523	7,581
		<u>644,746</u>	<u>474,489</u>
Current liabilities			
Creditors: amounts falling due within one year	16	(564,029)	(549,805)
Net current assets/(liabilities)		<u>80,717</u>	<u>(75,316)</u>
Non-current assets			
Amounts owed by group undertaking	15	40,000	110,000
Total assets less current liabilities		<u>670,278</u>	<u>595,273</u>
Creditors: amounts falling due after more than one year			
Government grants	17	(2,117)	(2,967)
Net deferred tax liability	17	(41,184)	(35,510)
Contract liabilities	17	(122)	(122)
Financial liability – derivatives	17	(1,132)	(791)
Right of use liabilities	17	(10,460)	—
Provisions for liabilities	18	(9,548)	(11,889)
Post-retirement health care benefits	19	(3,245)	(3,724)
Net assets		<u>602,470</u>	<u>540,270</u>
Capital and reserves			
Share capital	22	125,001	125,001
Share premium account		249,244	249,244
Capital reserve		—	121,658
Cash flow hedges reserve		14,022	(1,486)
Retained earnings		214,203	45,853
Total equity shareholders' funds		<u>602,470</u>	<u>540,270</u>

These financial statements were approved by the directors and authorised for issue on 23rd December 2020 and are signed on their behalf by:



AM McQueen
Director

The accompanying notes form part of these financial statements

Notes to the financial statements

1 Authorisation of financial statements and statement of Compliance with FRS101

The financial statements of ZF Automotive UK Limited for the year ended 31 December 2019 were authorised for issue by the board of directors on 23rd December 2020, and the balance sheet was signed on the board's behalf by AM McQueen. ZF Automotive UK Limited is a private company limited by shares and is incorporated and domiciled in England and Wales. These financial statements were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) and in accordance with applicable accounting standards.

The company's financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£000) except where otherwise indicated. The company has taken advantage of section 400 of the Companies Act 2006 which exempts the company from the obligation to prepare and deliver group financial statements as it is included in the consolidated accounts of ZF Friedrichshafen AG, a company registered in the Federal Republic of Germany. These accounts therefore present information about the company and not about its group. The principal accounting policies adopted by the company are set out in note 2.

2 Accounting policies

2.1 Basis of preparation

The company has taken advantage of the following disclosure exemptions available under FRS 101:

- (a) the requirements of IAS 7 Statement of Cash Flows;
- (b) the requirements of IFRS 2 Share Based Payments;
- (c) the requirements of paragraph 17 of IAS 24 Related Party Disclosures; and
- (d) the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary undertaking which is party to the transaction is wholly owned by such a member,
- (e) the requirements of IAS 8 disclosures in respect of new standards and interpretations that have been issued but are not yet effective; and
- (f) roll-forward reconciliations in respect of share capital (IAS 1), property, plant and equipment (IAS 16) and intangible assets (IAS 38).

Changes in Accounting Standards

The following new standards and amendments were issued by the IASB and in certain cases still have to be endorsed by the competent European Union bodies. For new standards and amendments effective after 1 January 2019, the company is currently evaluating the implementation method and the impact of adoption on our financial statements. In line with the ZF group approach, there was no early adoption.

2 Accounting policies (continued)

2.1 Basis of preparation (continued)

In 2019 the following new and/or amended standards were applied for the first time:

IFRS 9 – Amendments to Financial Instruments ‘Prepayment Features with Negative Compensation’

IFRS 16 – Leases

IAS 19 – Amendments to IAS 19 ‘Plan Amendment, Curtailment or Settlement’

IAS 28 – Amendments to IAS 28 ‘Long Term Interests in Associates and Joint Ventures’

IFRIC 23 – Uncertainty over Income Tax Treatments

Various improvements to IFRS 2015 - 2017

The impact of IFRS 16 on accounting by the company is presented in the ‘changes in accounting policies’ section in note 24.

Standards that are not yet adopted

The Standards that will impact the company in future periods are set out below:

International Financial Reporting Standard	Effective date on or after
IFRS 3 – Amendments to IFRS 3 ‘Definition of a Business’	1 January 2020
IFRS17 – Insurance Contracts	1 January 2021
IAS 1 /IAS 8 – Amendments to IAS 1 and IAS 8 ‘Definition of Material’	1 January 2020
Amendments to References to the Conceptual Framework	1 January 2020

The listed standards and interpretations issued or revised by the IASB were not yet applied by the company in the year 2018 because either the application of these standards and interpretations was not yet mandatory or the European Union had not yet endorsed them. The company will not adopt any of these standards earlier.

IFRS 16 replaces and changes the previous provisions of IAS 17 in relation to the accounting for leases by lessees. IFRS 16 has introduced exceptions to agreements with a term of up to one year and for assets that can be used independently, that are of low value and also in future do not affect the financial statements, similarly to the operating lease set out in IAS 17, and that are recognised directly in profit or loss. Accordingly, depreciation expense for the asset is presented separately from the interest expense on the liability for the right of use, with interest expenses being recognized as a component of the net financial result. The company has applied the modified retrospective method for the transition to IFRS 16 and will, to a great extent, make use of the practical expedients.

The company currently does not expect that the new or amended standards in their current form will have a significant impact on the presentation of financial statements.

2 Accounting policies (continued)

2.2 Judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates, and assumptions that affect the amounts reported for assets and liabilities at the balance sheet date and the amounts reported for revenues and expenses for the year. However, the nature of estimation means the actual outcomes could differ from those estimates. The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements:

Taxation

Management judgement is required to determine the amount of deferred tax assets can be recognised, based upon the likely timing and level of future profits together with an assessment of the effect of future planning strategies. Further details are contained in note 10.

Retirement benefits

The cost of defined benefit pension and medical plans are determined by using actuarial valuations. The actuarial valuation involves making assumptions about future key variables, and due to the complexity of the valuation, the underlying assumptions and the long term nature of these plans are subject to significant uncertainty.

Stock provision

Management judgement is required in the assessment of the appropriate basis for the stock provision. Stock provisions at each division are determined by a number of factors, including future volume usage and levels of obsolescence.

Warranty

Determination of warranty provisions (note 18) is subject to assumptions and estimates which refer to the time period between delivery date and the occurrence of the warranty event, warranty and goodwill periods as well as future warranty burdens.

Pricing provisions

The timing of the recognition of lump sum pricing provision is an assessment that involves management's judgement

2 Accounting policies continued)

2.3 Significant accounting policies

Going concern

The financial statements have been prepared on a going concern basis which assumes the company will continue in operational existence for the foreseeable future. As of 31 December 2019, the company had net current assets of £80.7 million (2018 – net current liabilities £75.3 million) and net assets of £602.5 million (2018 – £540.3 million). The business consists of several manufacturing units and also headquarter and engineering functions which service both the United Kingdom and other global jurisdictions.

The directors' have maintained a continual dialogue with group management during the pandemic in terms of issues of solvency and going concern, and were reassured when the group obtained a new credit facility of Euros 1.3 billion from three banks BNP Paribas, Deutsche Bank and JP Morgan which was secured at the end of April 2020. The credit facility increases the scope of the group's liquidity. The group has also agreed with its banking consortium to adjust its financial covenants which gives it additional headroom and security to cope with the economic impact of the pandemic.

The company has obtained a letter of financial support from the ultimate parent undertaking ZF Friedrichshafen AG covering a period of twelve months following the approval of these financial statements up until 31 December 2021. Along with the current cash resources of the company and the directors' forecasting of future cash flows into and out of the company, which has included stress testing these forecasts given the current economic uncertainty of COVID-19, the directors have sufficient assurance that the company is able to meet its liabilities as they fall due for a period of at least 12 months from the date of approval of these financial statements, and that ZF Friedrichshafen AG has sufficient financial resources to provide the funds detailed in the letter of financial support.

On this basis the directors have prepared the financial statements on a going concern basis which assumes the company will continue in operational existence for the foreseeable future.

Segmental reporting

Segmental turnover comprises sales to third parties and inter-company group undertakings, excluding sales-related taxes. Segmental operating profit represents profit before interest, exceptional items, and taxation. Segmental net operating assets comprise tangible fixed assets, stock, debtors and creditors, but not non-operating assets and liabilities such as all current and deferred tax balances, cash and borrowings.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

From fiscal year 2018, sales are recognized in accordance with IFRS 15 at the date when control over the product or the service is obtained by the customer. The assessment is made separately for each type of performance promise. The amount of sales is determined by the contractual agreement. To the extent that the purchase price refers to multiple sales transactions, the transaction price is allocated appropriately to the individual sales transactions. Sales from selling products and tools as well as the reimbursement of development expenses are recognized at a point in time, i.e. once the ownership or the risk is transferred to the customer. Income from services and licenses are recognized either at a point in time or over a period of time, depending on the respective contractual structure. Sales are reported net of cash discounts, price reductions, customer bonuses and rebates

2 Accounting policies (continued)

2.3 Significant accounting policies (continued)

Revenue recognition (continued)

Contract assets

Contract assets comprise contingent customer receivables. This primarily includes development expenses, which are being reimbursed through the component price within the framework of volume production delivery. After the transition of the development to the customer, these expenses are derecognised from inventories and recognised as contingent customer receivables in contract assets.

Contract liabilities

Contract liabilities comprise prepayments from customers received for goods and services that are yet to be delivered or provided by the company. In addition, outstanding charges by the customer to the company or credits by the company to the customer are reported in this category.

Other operating income

Other operating income consists of government grant and similar income, and fellow group undertakings technology royalty licence income.

Research and development

Expenditure on research and development, other than that which is specifically recoverable under contracts, is written off as incurred.

Foreign currencies

The company's financial statements are presented in sterling, which is also the company's functional currency. Transactions in foreign currencies are initially recorded in the entity's functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate at the balance sheet date. All differences are taken to the income statement.

Exceptional items

The company presents as exceptional items those material items of income and expense which, because of the nature and expected infrequency of the events giving rise to them, merit separate presentation to allow shareholders to understand better the elements of financial performance in the year, so as to facilitate comparison with prior periods and to assess better trends in financial performance. The company and ZF group consider that impairments to fixed assets are generally exceptional.

Related party transactions

The company has taken advantage of the exemption under paragraph 8(k) of the Financial Reporting Standard 101 not to disclose transactions with other wholly owned subsidiary undertakings that form part of the ZF group.

2 Accounting policies (continued)

2.3 Significant accounting policies (continued)

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquisition. When the company acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date, and assigns the acquired assets and liabilities and the consideration paid a fair value, resulting in the generation of goodwill. The IFRS3 exemption for business combinations under common control, allows for the combination of wholly controlled companies under a method other than fair value. The company has elected to use net book value for these business combinations.

Cash at bank and in hand

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

Fixed asset investments

Investments in subsidiaries are held at historical cost less any applicable provision for impairment.

Tangible fixed assets

Land and buildings are recognised initially at cost less depreciation and any provision for impairment.

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

Depreciation is provided on all right of use assets, property, plant and equipment, other than land, on a straight-line basis over its expected useful life as follows:

Right of use assets	over 3 to 50 years
Buildings	over 10 to 50 years
Plant and equipment	over 3 to 25 years

The carrying values of property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable, and are written down immediately to their recoverable amount. An item of property, plant and equipment is de-recognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from the de-recognition of the asset is included in the income statement in the period of de-recognition.

2 Accounting policies (continued)

2.3 Significant accounting policies (continued)

Intangible fixed assets

Amortisation is provided on capitalised software on a straight-line basis over its expected useful life as follows:

Software	over 1 to 4 years
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The carrying values of software are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable, and are written down immediately to their recoverable amount. An item of software is de-recognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from the de-recognition of the asset is included in the income statement in the period of de-recognition.

Impairment of non-financial assets

The company assesses at each reporting date whether there is an indication that an asset may be impaired. If such an indication exists, or when annual impairment testing for an asset is required, the company makes an estimate of the asset's recoverable amount in order to determine the extent of the impairment loss. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. This is determined for an individual asset, unless the asset does not generate cash flows that are largely independent of those of other assets or groups of assets. Where the carrying amount of an

For assets where an impairment loss subsequently reverses, the carrying amount of the asset or cash generating unit is increased to the revised estimate of its recoverable amount. This would exceed the carrying amount that would have been determined, net of depreciation, had no impairment losses been recognised for the asset or cash generating unit in prior years. A reversal of impairment loss is recognised immediately in the income statement, unless the asset is carried at a re-valued amount when it is treated as a revaluation increase.

Provision for liabilities

A provision is recognised when the company has a legal or constructive obligation as a result of a past event; it is probable that an outflow of economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation. If the effect is material, expected future cash flows are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability.

Where the company expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when recovery is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. Where discounting is used, the increase in the provision due to unwinding the discount is recognised as a finance cost.

2 Accounting policies (continued)

2.3 Significant accounting policies (continued)

Financial instruments

Financial assets:

Financial assets within the scope of IFRS 9 are classified as financial assets at fair value through profit or loss, financial assets at amortised cost or financial assets through other comprehensive income as appropriate. The company determines the classification of its financial assets at initial recognition.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (market trades) are recognised on the trade date i.e. the date that the company commits to purchase or sell the asset. The company's financial assets include cash and short-term deposits, trade and other receivables, loan notes, and derivative financial instruments.

Financial liabilities:

Financial liabilities within the scope of IFRS 9 are classified as financial liabilities at fair value through profit and loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value.

Derivative financial liabilities and hedging:

The company uses derivative financial instruments such as forward currency contracts to hedge its risks associated with foreign currency. Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

For those derivatives designated as hedges and for which hedge accounting is desired, the hedging relationship is formally designated and documented at its inception. This documentation identifies the risk management objective and strategy for undertaking the hedge, the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how effectiveness will be measured throughout its duration. At inception such hedges are expected to be highly effective in offsetting changes in fair value or cash flows. They are assessed on an ongoing basis to determine that they actually have been highly effective throughout the reporting period for which they were designated.

For the purpose of hedge accounting, hedges are classified as:

Cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction;

Any gains or losses arising from changes in the fair value of derivatives that do not qualify for hedge accounting are taken to the income statement. The treatment of gains and losses arising from revaluing derivatives designated as hedging instruments depends on the nature of the hedging relationship, as follows:

2 Accounting policies (continued)

2.3 Significant accounting policies (continued)

Derivative financial liabilities and hedging (continued):

Fair value hedges

For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged; the derivative is re-measured at fair value and gains and losses from both are taken to profit or loss. For hedged items carried at amortised cost, the adjustment is amortised through the income statement such that it is fully amortised by maturity. When an unrecognised firm commitment is designated as a hedged item, this gives rise to an asset or liability in the balance sheet, representing the cumulative change in the fair value of the firm commitment attributable to the hedged risk.

The Company discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the company revokes the designation.

Cash flow hedges

For cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income, while the ineffective portion is recognised in profit or loss. Amounts taken to other comprehensive income are transferred to the income statement when the hedged transaction affects profit or loss, such as when a forecast sale or purchase occurs. The company uses forward currency contracts as hedges of its exposure to foreign currency risk in forecast transactions and firm commitments.

Income taxes

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.
- Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date. Deferred income tax assets and liabilities are offset, only if a legally enforceable right exists to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the company to make a single net payment. Income tax is charged or credited to other comprehensive income if it relates to items that are charged or credited to other comprehensive income. Similarly, income tax is charged or credited directly to equity if it relates to items that are credited or charged directly to equity. Otherwise income tax is recognised in the income statement.

2 Accounting policies (continued)

2.3 Significant accounting policies (continued)

Leases

Leases are accounted for in accordance with IFRS 16. A lease is a contract that conveys the right to use an asset for an agreed period of time in exchange for consideration. IFRS 16 has introduced exceptions to agreements with a term of up to one year and for assets that can be used independently, that are of low value and also in future do not affect the financial statements. In accordance with IFRS 16, right-of-use assets are capitalised and a corresponding lease liability is recognised at the inception of a lease in which the company acts as the lessee. The lease liability is recognized at the present value of the future lease payments and discounted using the interest rate implicit in the lease. Normally, this rate cannot be readily determined. In these cases, the company's incremental borrowing rate for matching maturities and currencies is used. This rate is derived from observable credit spreads and swap rates. Lease liabilities are measured at the updated carrying amount using the effective interest method. Amounts that are expected to be paid due to a residual value guarantee as well as extension, termination and purchase options – to the extent reasonably certain – are taken into account in the measurement of future payments.

In addition to the present value of the future lease payments, the cost of the right-of-use asset is determined by taking into account any payments made before the commencement date, lease incentives and initial direct costs, if applicable. Furthermore, the estimated costs for retirement obligations assumed are included in the measurement. The capitalised right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term or the expected useful life. By exercising the corresponding option, agreements with a term of up to one year and agreements regarding assets that can be used independently and are of low value are recognized directly in profit or loss, not affecting the statement of financial position. ZF does not apply IFRS 16 to transactions involving intangible assets (including software and licenses). These continue to be accounted for in accordance with IAS 38.

Stocks

Stocks are valued at the lower of cost and net realisable value after making due allowance for obsolete and slow moving items. In the case of work in progress and finished goods, cost comprises direct materials, direct labour and an appropriate proportion of production overheads.

Trade and other debtors

Trade debtors, which generally have 30-90 day terms, are recognised and carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, receivables are carried at amortised cost. Provision for impairment is made through profit or loss when there is objective evidence that the company will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

The company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the company expects to receive, discounted at an approximation of the original effective interest rate.

For trade receivables, the company applies a simplified approach in calculating ECLs. Therefore, the company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

2 Accounting policies (continued)

2.3 Significant accounting policies (continued)

Government grants

Government grants are recognised when it is reasonable to expect that the grants will be received and that all related conditions will be met, usually on submission of a valid claim for payment. Government grants in respect of capital expenditure are credited to a deferred income account and are released as income by equal annual amounts over the expected useful lives of the relevant assets. Grants of a revenue nature are credited to income so as to match them with the expenditure to which they relate, provided the terms of the grant continue to be met.

Pensions and other post-employment benefits

The company operates a defined benefit pension plan. The pension plan was closed to new members in September 2009 and from October 2009 membership of a defined contribution plan was made available. The company also operates a funded unapproved retirement pension benefit scheme.

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined benefit obligation) and is based on actuarial advice. Past service costs are recognised in profit or loss. When a settlement (eliminating all obligations for benefits already accrued) or a curtailment (reducing future obligations as a result of a material reduction in the scheme membership or a reduction in future entitlement) occurs, the obligation and related plan assets are re-measured using current actuarial assumptions and the resultant gain or loss recognised in the income statement during the period in which the settlement or curtailment occurs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset, both as determined at the start of the annual reporting period, taking account of any changes in the net defined benefit liability during the period as a result of contribution and benefit payments. The net interest is recognised in profit or loss as other finance revenue or cost.

Re-measurements, comprising actuarial gains and losses, the effect of the asset ceiling and the return on the net assets (excluding amounts included in net interest), are recognised immediately in other comprehensive income in the period in which they occur.

The defined benefit pension asset or liability in the balance sheet comprises the total for each plan of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), less the fair value of plan assets out of which the obligations are to be settled directly. Fair value is based on market price information and in the case of quoted securities is the published bid price. The value of a net pension benefit asset is restricted to the present value of any amount the company expects to recover by way of refunds from the plan or reductions in the future contributions.

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

2 Accounting policies (continued)

2.3 Significant accounting policies (continued)

Post-retirement medical obligation

The company has also agreed to provide certain additional post-employment healthcare benefits to ex-employees. These benefits are unfunded. The liability is actuarially determined.

3 Segmental analysis

The segmental classifications used by the company to reflect the underlying core activities of the company's automotive business are:

Electronics, this incorporates safety, radio frequency, chassis, power-train electronics and driver assist systems.

Chassis Systems: this incorporates braking suspension, steering technology, aftermarket activities, and research and development activities.

Automotive Components: this formerly consisted of body control systems, and other electronic technologies.

Corporate: this incorporates administrative and management activities.

Sales to third parties and fellow group undertakings and operating profit before exceptional items, by class of business were as follows:

	2019	2018	2019	2018
	Sales	Sales	Operating	Operating
	£000	£000	profit	Loss
			£000	£000
Electronics	150,582	172,816	3,820	(594)
Electronics - acquired	518,397	–	43,197	–
Automotive Components (discontinued)	–	5,272	–	700
Chassis Systems	99,650	104,821	(4,830)	(365)
Chassis Systems – acquired	68,426	–	1,607	–
Chassis Systems – discontinued	12,553	53,471	2,066	5,265
Corporate	–	–	(2,077)	(10,712)
	<u>849,608</u>	<u>336,380</u>	<u>43,783</u>	<u>(5,706)</u>

3 Segmental analysis (continued)

Sales analysed by destination were as follows:

	2019 £000	2018 £000
United Kingdom	159,256	105,478
Continental Europe	628,660	213,230
Rest of World	61,692	17,672
	<u>849,608</u>	<u>336,380</u>

Shareholders' funds analysed by class of business were as follows:

	2019 £000	2018 £000
Electronics	(50,836)	(21,962)
Chassis Systems	108,434	151,364
Unallocated net assets	544,872	410,868
Total shareholders' funds	<u>602,470</u>	<u>540,270</u>

Unallocated net assets comprise net pension surplus, inter-group loan notes, net debt and taxation.

4 Operating profit / (loss)

Operating profit is arrived at after charging/(crediting) the following items:

	2019 £000	2018 £000
Change in stock of finished goods and work in progress	3,922	(2,184)
Operating lease rentals - plant and machinery	—	802
Operating lease rentals - land and buildings	—	2,139
Depreciation – right of use assets	3,149	—
Depreciation - tangible assets	22,781	10,088
Amortisation - intangible assets	784	513
Auditors' remuneration - audit services *	348	248
Auditors' remuneration - non audit services: other assurance services *	23	—
Net foreign exchange (gains)/losses	(1,660)	1,315
TRW inter-company trademark expense	8,506	4,085
Research and development costs	42,400	42,015
Government grant income	<u>(1,074)</u>	<u>(30)</u>

* In 2018 a proportion of the audit fee, and the total of the non-audit service fee was allocated to a fellow group undertaking, this did not occur in 2019.

5 Particulars of employees

The numbers shown below relate to costs borne by the company's divisions in the year and their equivalent headcount.

	2019 £000	2018 £000
Wages and salaries	86,501	68,253
Social security costs	8,092	6,627
Other pension costs	2,255	1,882
	<u>96,848</u>	<u>76,762</u>

The company made contributions of £1.9 million (2018 - £2.3 million) to the defined contribution pension scheme. Amounts outstanding at the year-end were £ nil (2018 - £ nil). Past service costs in relation to the company's closed defined benefit pension schemes is included in the above (see note 19).

The average number of staff employed by the company during the financial year amounted to:

	2019 No.	2018 No.
Electronics	689	748
Electronics – acquired	997	–
Chassis Systems	820	1,082
Chassis Systems – acquired	160	–
Corporate	66	46
	<u>2,732</u>	<u>1,876</u>

Directors' emoluments

	2019 £000	2018 £000
Emoluments	671	666
Other pension costs	79	70
	<u>750</u>	<u>736</u>

	No.	No.
Members of a defined benefit scheme	<u>3</u>	<u>3</u>

The above tables relate to the emoluments of 3 directors for the year ended 31 December 2019, one of whom resigned in the year (2018 - 3 directors).

5 Particulars of employees (continued)

The emoluments relating to the other director are borne by another undertaking in the group. In any given year the directors do not spend a significant portion of their time on the company.

The amounts in respect of the highest paid director are as follows:

	2019 £000	2018 £000
Emoluments	248	346
Other pension costs	25	24
	<u>273</u>	<u>370</u>

6 Exceptional Items

	2019 £000	2018 £000
Recognised in arriving at operating (loss)/profit:		
Gain on disposal of trade and business (note 25)	23,958	–
Gain on sale of business	–	7,801
Impairment of tangible fixed assets	(159)	(563)
Impairment of intangible fixed assets	–	(284)
GMP pension equalisation	–	(12,448)
	<u>23,799</u>	<u>(5,494)</u>

The directors have carried out an impairment review of the fixed assets investments in accordance with IAS 36. The impairment review was carried out by comparing fixed asset books values with the discount value of forecast future cash flows for all its trading operations. The forecast future cash flows were arrived at using the company's three year strategic plan, with appropriate sensitivities. The cash flows were discounted at a rate appropriate to the business.

Accordingly an impairment of tangible fixed assets totalling £0.2 million was booked as a result of the review (2018 – impairment of tangible fixed assets £0.5 million and intangible assets £0.3 million).

7 Interest receivable and similar income

	2019 £000	2018 £000
Defined benefit pension (see note 19)	12,498	12,285
Interest on bank deposits	11	—
Interest on inter-group deposits	6,004	4,843
Total interest receivable	18,513	17,128

8 Interest payable and similar charges

	2019 £000	2018 £000
Lease interest	448	—
Interest on inter-group and other borrowings	3,532	533
Total interest payable and similar charges	3,980	533

9 Other finance costs

	2019 £000	2018 £000
Post-retirement health care benefit finance costs	88	94

10 Taxation on ordinary activities**a) Analysis of charge in the year**

	2019 £'000	2018 £'000
Current tax:		
United Kingdom corporation tax	—	—
Foreign withholding taxes and other credits	3,132	3,527
Total current taxation charge for the year	3,132	3,527
Deferred tax	7,642	79
Total tax charge included in profit and loss	10,774	3,606

Foreign withholding tax cannot be utilised in the current year. The tax assessed on the profit on ordinary activities for the year is lower than the standard rate of corporation tax in the United Kingdom of 19% (2018 – 19%).

b) Tax relating to items charged or credited to other comprehensive income

	2019 £'000	2018 £'000
Deferred tax charge/(credit) on:		
Actuarial loss on defined benefit pension plans	(5,189)	(15,868)
Net gain on revaluation of cash flow hedges	3,220	279
Total tax charge recognised in other comprehensive income	(1,968)	(15,589)

c) Reconciliation of the total tax charge

The tax expense in the income statement for the year is lower than the standard rate of corporation tax in the UK of 19% (2018 – 19%). The differences are reconciled below:

	2019 £'000	2017 £'000
Profit on ordinary activities before taxation	82,027	5,301
Tax calculated at UK standard rate of corporation tax 19% (2018 – 19%)	15,585	1,007
Group relief	—	989
Foreign withholding tax	—	3,527
Income not taxable	(7,068)	(2,316)
Expenses not deductible	414	2,708
Tax rate change	—	—
Tax adjustments, reliefs and others	1,843	(1,639)
Other permanent differences	—	(670)
Total tax	10,774	3,606

10 Taxation on ordinary activities (continued)**d) Deferred taxation**

Deferred tax liabilities have been recognised to the extent that they will reverse in future years.

	2019 £000 Recognised	2018 £000 Recognised
Tax on excess of depreciation over capital allowances and other timing differences	16,020	18,430
Short term timing differences	(1,370)	1,988
Tax value of losses carried forward	14,659	17,879
Net defined benefit pension plan surplus	(70,493)	(73,807)
Deferred tax liability	<u>(41,184)</u>	<u>(35,510)</u>
	2019 £000	2018 £000
Deferred tax liability:		
At 1 January	(35,510)	(55,183)
Profit and loss charge in the year	(7,642)	(79)
OCI credit in the year	1,968	15,589
Transfer of trade /business	–	4,163
At 31 December	<u>(41,184)</u>	<u>(35,510)</u>

11 Tangible fixed assets

	Right of use assets £000	Freehold property £000	Plant and machinery £000	Assets under construction £000	Total £000
Cost or valuation					
At 31 December 2018	–	15,657	265,155	12,702	293,514
Change in accounting policy IFRS 16 (note 24)	15,894	–	–	–	15,894
At 1 January 2019	<u>15,894</u>	<u>15,657</u>	<u>265,155</u>	<u>12,702</u>	<u>309,408</u>
Additions	–	–	17,128	5,002	22,130
Disposals	–	(2,204)	(8,885)	–	(11,089)
Transfers	–	–	1,508	(1,552)	(44)
At 31 December 2019	<u>15,894</u>	<u>13,453</u>	<u>274,906</u>	<u>16,152</u>	<u>320,405</u>
Depreciation					
At 1 January 2019	–	1,410	168,035	–	169,445
Charge for the year	3,149	151	22,630	–	25,930
Disposals	–	(1,375)	(6,416)	–	(7,791)
Impairments	–	–	159	–	159
At 31 December 2019	<u>3,149</u>	<u>186</u>	<u>184,408</u>	<u>–</u>	<u>187,743</u>
Net book value					
At 31 December 2019	<u>12,745</u>	<u>13,267</u>	<u>90,498</u>	<u>16,152</u>	<u>132,662</u>
At 31 December 2018	<u>–</u>	<u>14,247</u>	<u>97,120</u>	<u>12,702</u>	<u>124,069</u>

Included within freehold property is £11.9 million (2018 restated - £12.3 million) of land.

The company applied the new IFRS 16 'leases' standard for the first time with effect from 1 January 2019, the rights of use assets included in the above categories developed as follows in the year under review:

	Land and buildings £000	Plant and machinery £000	Total £000
Additions during the year	15,392	502	15,894
Depreciation during the year	(3,007)	(142)	(3,149)
Carrying amount at 31 December 2019	<u>12,385</u>	<u>360</u>	<u>12,745</u>

11 Tangible fixed assets (continued)

The directors have carried out an impairment review of the fixed assets investments in accordance with IAS 36. The impairment review was carried out by comparing fixed asset books values with the discount value of forecast future cash flows for all its trading operations. The forecast future cash flows were arrived at using the company's three year strategic plan, with appropriate sensitivities. The cash flows were discounted at a rate appropriate to the business.

Accordingly an impairment of tangible fixed assets totalling £0.2 million was booked as a result of the review (2018 – impairment of £0.6 million).

12 Intangible fixed assets

	Software £000	Total £000
Cost		
At 1 January 2019	6,520	6,520
Additions	296	296
Disposals	(691)	(691)
Transfers	44	44
At 31 December 2019	6,169	6,169
Amortisation		
At 1 January 2019	3,778	3,778
Charge for the year	784	784
Disposals	(629)	(629)
At 31 December 2019	3,933	3,933
Net book value		
At 31 December 2019	2,236	2,236
At 31 December 2018	2,742	2,742

The directors have carried out an impairment review of the fixed assets investments in accordance with IAS 36. The impairment review was carried out by comparing intangible fixed asset books values with the discount value of forecast future cash flows for all its trading operations. The forecast future cash flows were arrived at using the company's three year strategic plan, with appropriate sensitivities. The cash flows were discounted at a rate appropriate to the business.

Accordingly no impairment of intangible fixed assets was booked as a result of the review (2018 – impairment of £0.3 million).

13 Investments

Subsidiary
undertakings
£000

Shares at cost and net book value:

At 1 January and 31 December 2018

—

Detail of the investment in which the company holds 20% or more of the nominal value of any class of share capital is as follows:

Subsidiary undertakings

Name of company	Country of incorporation	Holding proportion of voting rights and shares	Nature of business
ID Information Systems Limited	England	Ordinary shares 100%	Dissolved
TRW LucasVarity Electric Steering Limited	England	Ordinary shares 100%	Dissolved

The above subsidiary undertakings share the same registered address of Stratford Road, Solihull, West Midlands, England B90 4GW.

On 29 September 2020 the indirectly owned subsidiary undertaking ID Information Systems Limited was dissolved via a voluntary strike-off from the register at Companies House.

On 1 December 2020 the indirectly owned subsidiary undertaking TRW LucasVarity Electric Steering Limited was dissolved via a voluntary strike-off from the register at Companies House.

14 Stocks

	2019 £000	2018 £000
Raw materials	23,873	23,344
Work in progress	5,880	4,875
Finished goods	12,309	17,236
	<u>42,062</u>	<u>45,455</u>

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

15 Debtors

	2019 £000	2018 £000
Debtor: amount falling due after more than one year		
Amount owed by intermediate parent undertaking	40,000	110,000
	<u>40,000</u>	<u>110,000</u>
Debtors: amounts falling due within one year		
Trade debtors	96,685	100,543
Amounts owed by group undertakings	466,211	238,921
Amounts owed by immediate parent undertaking	—	42,483
Financial assets – derivatives *	27,842	10,298
Other debtors	8,316	5,333
Prepayments and accrued income *	3,107	23,875
	<u>602,161</u>	<u>421,453</u>
	<u>642,161</u>	<u>531,453</u>

An inter-company loan note receivable totalling £110.0 million due from a fellow group undertaking TRW Deutschland Holdings GmbH, was settled in full on 19 December 2019.

As part of the proceeds following the disposal of the business and trade of the company's Aftermarket operations to a fellow UK subsidiary undertaking, the company has an inter-company loan note receivable totalling £40.0 million due from this subsidiary undertaking ZF Services UK Limited.

The loan note bears interest at 12 month LIBOR plus a margin of 0.95% per annum, the note is due to be repaid on 31 March 2022.

Trade debtors include an expected credit loss provision under IFRS 9 of £0.9 million (2018 - £0.9 million).

* The prior year categories 'financial assets – derivatives' and 'prepayments and accrued income' have been restated, this has had no impact on the total of debtors: amounts falling due in one year for 2018.

16 Creditors: amounts falling due within one year

	2019 £000	2018 £000
Trade creditors *	101,845	104,792
Amounts owed to group undertakings	355,320	395,029
Amounts owed to immediate parent undertaking	81,362	–
Other creditors	5,566	6,177
Social security and other taxes	2,394	15,676
Government grants	958	1,332
Financial liability – derivatives	1,554	4,235
Right of use liabilities	2,516	–
Contract liabilities *	7,894	4,892
Accruals and deferred income	4,620	17,672
	<u>564,029</u>	<u>549,805</u>

Trade creditors are due within the terms agreed with suppliers, typically 30-90 days. Amounts owed to group undertakings and immediate parent undertaking are due on demand.

Financial liability - derivatives represents the fair value of forward contracts and options.

In 2019 payments for IFRS 16 lease liabilities including interest totalled £3.2 million.

An inter-company loan note payable totalling £94.3 million due to an intermediate parent undertaking ZF Automotive Holdings UK Limited, was settled in full on 19 December 2019.

* The prior year categories 'trade creditors' and 'contract liabilities' have been restated, this has had no impact on the total of creditors: amounts falling due in one year for 2018.

17 Creditors: amounts falling due after more than one year

	2019 £000	2018 £000
Government grants	2,117	2,967
Net deferred tax liability (note 10)	41,184	35,510
Financial liability - derivatives	1,132	791
Right of use liabilities	10,460	–
Contract liabilities	122	122
	<u>55,015</u>	<u>39,390</u>

18 Provisions for liabilities

	Environmental provisions £000	Warranty provisions £000	Employer liability provisions £000	Total £000
As at 1 January 2019	1,174	8,900	1,815	11,889
Charge in the year	–	4,473	–	4,473
Utilised in the year	(398)	(4,394)	(41)	(4,833)
Released in the year	–	(540)	(1,441)	(1,981)
At 31 December 2019	<u>776</u>	<u>8,439</u>	<u>333</u>	<u>9,548</u>

Environmental provisions

A provision is estimated for each environmental matter using standard engineering cost estimating techniques. Environmental provisions will, in the main, be utilised after more than one year. The potential impact on the financial statement if the provision was discounted is not considered material.

Warranty provisions

Warranty provisions reflect the contract durations for automotive parts, which generally range from one year to four years.

Employer liability provisions

The company has been subject in recent years to asbestos-related and hearing loss claims, the directors believes that such claims will not have a material adverse effect on the company's financial condition or results of operations. In general, these claims seek damages for illnesses alleged to have resulted from exposure to asbestos used in certain components sold in the past. In the majority of the cases there is significant insurance coverage with respect to these claims. However, while the company's costs to defend and settle these claims in the past have not been material, there can be no assurances that this will remain so in the future. The directors believe that the ultimate resolution of the foregoing matters will not have a material effect on the company's financial condition or results of operations.

19 Pensions and post-retirement health care benefits**IAS 19 disclosures****a) Pensions – TRW Pension Plan**

The company operates a defined benefit pension scheme, providing benefits at retirement and on death-in-service. The scheme was closed to new benefit accrual on 30 April 2011. The scheme is funded by the payment of contributions to separately administered trust funds. Contributions are calculated by separate triennial actuarial valuations.

The scheme is legally separate from the ZF group and administered by a separate fund. The board of trustees of the scheme is made up of representatives of the company and member nominated trustees. By law, the board is required of trustees to act in the best interests of the participants to the schemes and has the responsibility of settling investment, contribution and other relevant policies.

The scheme is exposed to a number of risks, including:

- Investment risk: movement of discount rate used against the actual market return from scheme assets;
- Interest rate risk: decreases / increases in the discount rate used will increase/decrease the defined benefit obligation;
- Longevity risk: changes in the estimation of mortality rates of current and former employees;
- Inflation risk: decreases / increases in the inflation rate used will decrease/increase the defined benefit obligation; and
- Legislative risk, which could increase the cost of providing defined benefit pensions.

Employees are generally eligible to join the defined contribution scheme, subject to automatic enrolment legislation.

The year end valuation has been based on the most recent full actuarial valuation at 1 April 2017 and updated by a qualified independent actuary Aon to take account of the requirements of FRS 101 in order to assess the liabilities of the scheme at 31 December 2019 and 31 December 2018. Scheme assets are stated at their market values at the respective balance sheet dates and overall expected rates of return are determined using the discount rate.

19 Pensions and post-retirement health care benefits**IAS 19 disclosures****a) Pensions – TRW Pension Plan**

The major assumptions used by the actuary for IAS 19 purposes were as follows:

Economic assumptions

	2019 %	2018 %
Discount rate	2.0	2.9
Rate of increase to pensions in payment (CPI)	1.9	2.1
Rate of increase to pensions in deferment (CPI)	1.9	2.1
RPI inflation assumption	2.9	3.2

The weighted average duration of the funded defined benefit obligation for 2019 is 17.8 years (2018: 19 years).

Mortality assumptions

The life expectancy assumptions for the scheme are periodically reviewed. The weighted average life expectancies assumed at 31 December 2019 is assumed to be in line with the published mortality table known as S2PA using 115% of the base table with CMI 2018 Sk7.0 mortality improvements and with long term improvement rate of 1.25% pa.

The impact of the value of the defined benefit obligation of a reasonably possible change to one actuarial assumption, holding all other assumption constant is presented in the table below:

Actuarial Assumption	Reasonably %	Defined Benefit obligation increase/(decrease) £000	Defined Benefit obligation increase/(decrease) £000
Discount Rate	-/+ 0.25%	52,888	(49,425)
Mortality Rate	-/+ 1 year	(39,972)	39,664
Pension increase	-/+ 0.25%	(29,531)	39,835

19 Pensions and post-retirement health care benefits (continued)**a) Pensions – TRW Pension Plan (continued)**

The assets in the plan were:

	Value at 31 December 2019 £m	Value at 31 December 2018 £m
Equities	–	34.3
Equity instruments	–	104.2
Government Bonds	1,572.0	1,597.2
Corporate Bonds	23.4	20.7
Property and infrastructure	0.1	15.6
Derivatives	11.5	(6.4)
Cash, cash equivalents and overdraft	(567.2)	(798.8)
Asset backed securities, secured loans and global multi-asset credit	541.1	513.7
Total market value	1,580.9	1,480.5
Present value of plan liabilities	(1,166.3)	(1,046.2)
Surplus in the plan at the end of the year	414.6	434.3
Related deferred tax provision at 17% (2018 – 17%) (note 10)	(70.5)	(73.8)
Net pension asset	344.1	360.5

Listed plan assets are stated at the last quoted price at the balance sheet date, and unlisted assets are priced using quotes provided by external brokers. The plan's property assets are included at open market value at the balance sheet date. The valuation is provided by independent external valuers in accordance with the Appraisal and Valuation Manual issued by the Royal Institute of Chartered Surveyors. The assumptions supporting the expected long term rates of return on assets are made by the company's directors based on advice received from the company's appointed actuary Aon. The pension plan surplus is restricted due to the fact that the pension scheme is closed to future benefit accrual.

The TRW defined benefit plan IAS 19 accounting surplus is recognised on the company's balance sheet, as the company has an unconditional right to the surplus upon the wind up of the scheme.

19 Pensions and post-retirement health care benefits (continued)**a) Pensions – TRW Pension Plan (continued)****Analysis of amount recognised in income statement:**

	2019 £000	2018 £000
Past service cost - GMP equalisation expense	–	(12,448)
Administration expense	(1,715)	(1,700)
Total net interest income (note 7)	12,498	12,285
Total amount recognised in income statement	10,783	(1,863)

The pension plan is closed to future accrual and therefore has no service cost.

Analysis of amount recognised in other comprehensive income (OCI):

	2019 £000	2018 £000
Change in actuarial gains and losses recognised	(29,975)	(49,691)
(Losses)/gains recognised in OCI	(29,975)	(49,691)

Analysis of amount recognised in equity:

	2019 £000	2018 £000
Distribution in specie	–	(44,198)
Result/(losses) recognised in equity	–	(44,198)

Reconciliation of defined benefit obligations

	2019 £000	2018 £000
Opening defined benefit obligation	1,046,679	1,173,270
GMP equalisation expense	–	12,448
Interest cost	28,894	30,246
Benefits paid	(76,959)	(132,146)
Benefits paid by employer	(77)	(77)
Actuarial re-measurements	167,753	(37,062)
Closing defined benefit obligation	1,166,290	1,046,679

19 Pensions and post-retirement health care benefits (continued)**a) Pensions – TRW Pension Plan (continued)**

Reconciliation of fair value of plan assets

	2019 £000	2018 £000
Opening fair value of plan assets	1,480,457	1,702,723
Distribution in specie	–	(44,198)
Interest income	41,392	42,531
Benefits paid	(76,959)	(132,146)
Plan administrative costs	(1,715)	(1,700)
Employer contributions	–	–
Actuarial re-measurements (return on pension plan excluding interest income)	137,778	(86,753)
Closing fair value of plan assets	1,580,953	1,480,457

The major categories of plan assets as a percentage of total plan assets are as follows

	2019 %	2018 %
Equities	–	2.32
Equity Instruments	–	7.04
Government Bonds	99.44	107.88
Corporate Bonds	1.48	1.40
Property	0.01	1.05
Derivatives	0.73	(0.43)
Cash, cash equivalents and overdraft	(35.88)	(53.95)
Asset backed securities, secured loans and global multi-asset credit	34.22	34.70

Amounts for the current year are as follows:

	2019 £000	2018 £000
Fair value of plan assets	1,580,953	1,480,457
Present value of defined benefit obligation	(1,166,290)	(1,046,679)
Surplus	414,663	433,778

19 Pensions and post-retirement health care benefits (continued)**b) Post-retirement health care benefits**

A provision exists to cover post-retirement health care for a limited number of employees and ex-employees. The latest actuarial valuation of the scheme was carried out at 31 December 2019 by a qualified independent actuary, Aon. The scheme is closed to new members.

The major assumptions used by the actuary for IAS 19 purposes were as follows:

	2019 %	2018 %
Discount rate to determine benefit obligations	1.8	2.5
Healthcare trend rate	5.1	5.4

The liabilities in the scheme were:

	2019 £000	2018 £000
Actuarial value of liabilities	3,245	3,724
Deficit in scheme	3,245	3,724

Analysis of amount debited to other finance expense:

	2019 £000	2018 £000
Interest expense on health care liabilities	88	94
Net return	88	94

Analysis of amount recognised in other comprehensive income (OCI):

	2019 £000	2018 £000
Changes in assumptions underlying the present value of the scheme liabilities	224	433
Actuarial gain in health care plan recognised in OCI	224	433

19 Pensions and post-retirement health care benefits (continued)**b) Post-retirement health care benefits (continued)**

Movement in deficit during the year:

	2019 £000	2018 £000
Deficit in scheme at beginning of the year	3,724	4,556
Contributions and revenue benefit payments	(343)	(493)
Finance interest expense (note 9)	88	94
Actuarial gain	(224)	(433)
Deficit in scheme at the end of the year	3,245	3,724

History of experience gains and losses:

	2019 £000	2018 £000
Experience gains on scheme liabilities recognised in OCI	224	433
Percentage of the present value of scheme liabilities	6.9%	11.6%

20 Commitments**Capital commitments**

At 31 December authorised future capital commitments amounted to:

	2019 £000	2018 £000
Contracted but not provided	<u>53,353</u>	<u>66,734</u>

21 Contingent liabilities

Other than the provisions for liabilities described in note 19, there are no material contingent liabilities (2018 - £ nil). In the opinion of the directors, adequate provisions have been made for losses which might arise.

22 Share capital and reserves

Authorised share capital:

	2019 £000	2018 £000
125,000,850 ordinary shares of £1 each (2018 – 125,000,850 ordinary shares of £1 each)	<u>125,001</u>	<u>125,001</u>

Allotted, called up and fully paid:

	2019 £000	2018 £000
125,000,652 ordinary shares of £1 each (2018 – 125,000,652 ordinary shares of £1 each)	<u>125,001</u>	<u>125,001</u>

During the year the capital reserve of £121.7 million was transferred to retained earnings. This follows the settlement of inter-company receivables and the disposal of the Company's aftermarket business which had generated the capital reserve amounts of £110.0 million and £11.7 million respectively. These transactions have resulted in the original contributions being realised and accordingly they have been transferred to the retained earnings reserve.

23 Ultimate parent company

The company's immediate parent undertaking is ZF International UK Limited, a company registered in England and Wales.

At 31 December 2019 the company's ultimate undertaking and controlling party is ZF Friedrichshafen AG, a company registered in the Federal Republic of Germany. This is the smallest and largest group in which the results of the company are consolidated and copies of the consolidated accounts of the company may be obtained from ZF Friedrichshafen AG, Loewentaler Strasse 20, 88046 Friedrichshafen, Germany.

24 Changes in accounting policies

As stated in note 2.1 'Basis of Preparation' the company elected to apply the modified retrospective method for the first time application of IFRS 16.

Since January 1, 2019, the company has applied the new standard for lease accounting (IFRS 16). A lease is a contract that conveys the right to use an asset for an agreed period of time in exchange for consideration. The company acts as the lessee of production, warehouse and office buildings as well as, to a smaller extent in terms of value, of forklift trucks and vehicles. IFRS 16 replaces and changes the previous provisions of IAS 17 in relation to the accounting for leases by lessees. The distinction previously made pursuant to IAS 17 regarding the lessee between recognized obligations from finance leases and unrecognized obligations from operating leases is revoked and replaced by an accounting model for lessees that introduces mandatory recognition similar to the provision for finance lease contracts applicable under IAS 17. The procedure set out in IAS 17 for finance leases is largely followed. Accordingly, as per IFRS 16, a liability in the amount of the present value of the future lease payment and a corresponding asset in the form of a right of use have to be recognized. Accordingly, the depreciation expense for the right of use has to be presented separately from the interest expense on the leasing liability in the statement of profit or loss, with interest expenses being recognized as a component of the net financial result. The company elected to apply the modified retrospective method for the first-time application of IFRS 16, which means that the cumulative effect from the first-time application of IFRS 16 as of 1 January 2019, was reported in retained earnings. The prior year's comparative figures, including the disclosures in the notes to the consolidated financial statements, were not adjusted and are therefore comparable only to a limited degree. The reasons for the material changes from the application of IFRS 16 as well as the adjustments of the amounts as of 1 January 2019, are detailed below. In addition, the statement of financial position as of 31 December 2019, and the statement of profit or loss for the fiscal year 2019 are represented after adjustments due to the effects from the application of IFRS 16. The changes primarily refer to the accounting treatment of contracts previously classified as operating leases. These leases had been recognized outside the statement of financial position until 31 December 2018. Upon the initial application of IFRS 16, a right-of-use asset as well as a lease liability were recognized in the statement of financial position for these contracts. Upon initial application, the transition requirements set out in IFRS 16 were taken into account and the elections and practical expedients provided for by the standard were exercised as follows:

- At the time of the initial application, the classification of agreements so far existing under IAS 17 as leases was not reassessed.
- Irrespective of their original term, leases that expired before 1 January 2020, were recognized directly in profit or loss as short-term leases, thus not affecting the statement of financial position.
- Apart from very few exceptions, the rights of use from leases were measured in the amount of the leasing liability. The latter is the present value of the outstanding lease payments as of 1 January 2019, discounted using the incremental borrowing rate applicable at the corresponding point in time.
- Initial direct costs were not taken into account for the evaluation of the rights of use from leases as of 1 January 2019.
- An impairment test for the rights of use as of 1 January 2019, was not carried out while potentially existing provisions for onerous contracts were taken into account.
- Options for renewal, termination and purchase – if sufficiently likely – were taken into account for the evaluation of the rights of use, the lease liabilities and the depreciation period. Reasonably probable renewal and purchase options lead to an increase of the right-of-use assets and, accordingly, to higher future depreciation. In contrast, reasonably probable termination options result in a decrease of the recognized right-of-use assets and consequently to lower future depreciation.

Beyond initial application, there are further accounting choices as well as practical expedients that are exercised by the company as follows:

24 Changes in accounting policies (continued)

- Lease agreements with a term of up to one year and agreements for which the underlying asset is of low value and can be used on a standalone basis are directly recognized in profit or loss, remaining off-balance.
- The company does not apply IFRS 16 to transactions involving intangible assets (including software and licenses). These continue to be accounted for in accordance with IAS 38. The implementation of IFRS 16 has mainly led to the following effects:
 - For previously existing operating leases, right-of-use assets in the amount of £15.9 million and corresponding lease liabilities in the amount of £15.9 million were recognized in the statement of financial position as of 1 January 2019. These amounts are mainly related to property rental contracts (right-of-use asset of £15.4 million) as well as factory and office equipment such as forklift trucks and vehicles (right-of-use asset of £0.5 million). For individual property rental contracts, the election to measure the right-of-use asset at the amount of the lease liability was not exercised.
 - In the opening balance sheet, the application of IFRS 16 resulted in an increase in total assets by 1.3%.
 - The present value of the lease liabilities was determined using an incremental borrowing rate applicable for the respective lease term and currency. This was derived from credit spreads and swap rates observed on the market and amounts to a weighted average of 3.4% upon initial recognition.
 - Pursuant to IAS 17, non-exercised extension options had to be taken into account in the measurement of the financial liability from finance leases only in specific cases. To the extent that their exercise is reasonably certain, such options are included in the carrying amount in accordance with IFRS 16.

The following table shows the reconciliation to the opening balance of the lease liabilities as of 1 January 2019 compared to the operating lease disclosure of 31 December 2018:

	1 January 2019 £000
Operating lease obligations at 31 December 2018	25,935
Reassessment of lease duration *	(5,957)
Operating lease obligations at 31 December 2018	19,978
Relief option for short-term leases	(646)
Relief option for low value assets	(269)
Lease surrenders	(1,435)
Re-negotiated 3 year building lease extension	1,992
Gross lease liabilities at 1 January 2019	19,620
Discounting	(3,726)
Lease liabilities as a result of the initial application of IFRS 16 as at 1 January 2019	15,894

* Prior year lease obligations have been restated following a review of the lease termination and commitment dates in preparation for the adoption of IFRS 16.

25 Transfer of business and trade

On 28 March 2019 the company disposed of the business and trade of 2 aftermarkets operations located at Wrexham and Shirley in Birmingham, to a fellow UK group undertaking ZF Services UK Limited. The businesses were valued at fair market, and the consideration paid for these assets less liabilities totalled £73.4 million, this gave rise to a gain on disposal of £21.3 million.

Details of the assets less liabilities disposed of are given below:

	Shirley	Wrexham	Total
	£000	£000	£000
Fixed assets			
Tangible assets	–	1,388	1,388
Intangible assets	46	–	46
Current assets			
Stock	149	7,260	7,409
Trade debtors	2,051	6,095	8,146
Other debtors	1,431	3,908	5,339
Amounts owed by group undertakings	18,051	34,605	52,656
Current liabilities			
Trade creditors	(2,976)	(2,941)	(5,917)
Other creditors	–	(11,260)	(11,260)
Corporation tax	(323)	(250)	(573)
Amounts owed to group undertakings	–	(7,449)	(7,449)
Non-current liabilities			
Provisions for liabilities	(141)	(155)	(296)
Net assets disposed	18,288	31,201	49,489
Cash and loan consideration	(20,498)	(52,949)	(73,447)
Gain on disposal	2,210	19,090	23,958

26 Events after the balance sheet date

On 11 March 2020, the World Health Organization raised the public health emergency situation caused by the outbreak of the coronavirus (COVID-19) to an international pandemic. The rapid evolution of events, nationally and internationally, represents an unprecedented health crisis, which will impact the macroeconomic environment and the evolution of business. The company considers that these events do not require an adjustment in the annual accounts for the year ended 31 December 2019. However, during 2020 they have had an impact on the wider ZF group's operations and on its results and future cash flows. However, the impact has been less than originally forecasted due to actual lower reductions of vehicle volumes than expected during 2020. Also, the introduction of new ZF Group transfer pricing agreements for 2021 for the manufacturing locations, should lead to positive contributions for all the product lines. The company, and wider ZF group, are continuing to take the necessary steps in order to face the situation and minimize its impact.

On 27 April 2018 a High Court case determined that the Guaranteed Minimum Pension (GMP: this is the portion of pension that was accrued by individuals who were contracted out of the second tier of state pension provision prior to 6 April 1997) needed to be equalised due to the inequality of this benefit between some male and female members. This led to the costs of equalisation being recognised as a past service cost in the 2018 annual report and financial statements. On 20 November 2020 the High Court published a further judgment in this case focussing on the treatment of historic transfer payments. The judgment stated that top-up payments are required for some transfer payments made since 1990. An estimate of this additional liability has yet to be calculated, it's recognition will be disclosed in the 2020 company annual report and financial statements.

On 29 September 2020 the indirectly owned subsidiary undertaking ID Information Systems Limited was dissolved via a voluntary strike-off from the register at Companies House.

On 1 December 2020 the indirectly owned subsidiary undertaking TRW LucasVarity Electric Steering Limited was dissolved via a voluntary strike-off from the register at Companies House.

On 2 December 2020 the ZF group has announced the proposed potential closure of the company's Sunderland manufacturing facility at the end of 2021. Until this time, the facility will continue production.