

Festo Limited

Annual report and financial statements

31 December 2020



Festo Limited

REPORT AND FINANCIAL STATEMENTS 2020

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Festo Limited

OFFICERS AND PROFESSIONAL ADVISORS

DIRECTORS

Giampiero Bighiani
Jorg Naumburger
Eliza Rawlings

SECRETARY

Andrea Dawn Brown

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AUDITOR

Deloitte LLP
Mountbatten House
1 Grosvenor Square
Southampton
SO15 2BZ

STRATEGIC REPORT

The principal activity of the Company continues to be the import and sale of pneumatic/fluid power, electric as well as allied technology based products, and the local manufacture and sale of control systems for industrial automation applications. In addition, Festo provides technical education hardware as well as training and consultancy services, across a wide range of areas and disciplines (specifically engineering based, as well as people and management development).

The majority of the base equipment sold directly to the market and used within the control systems division is Festo branded products, which in the main are purchased from Festo SE & Co. KG, the ultimate parent company, registered in Germany.

Business Review

Festo continues to trade mainly within the manufacturing and engineering sector in the UK.

Festo operates within this overall environment, more specifically in the pneumatic (i.e. motion control using air) sector of the fluid power market. Fluid power is the sector of engineering which incorporates both hydraulics motion control using oil and pneumatic products and technology. In recent years, Festo has responded to market needs by introducing a full range of electric automation systems with motion control capabilities that have helped Festo to successfully gain additional market share.

The overall Festo turnover for the current year was £43,174,094 (2019: £40,152,856). The increase in turnover was due to sales growth within key customers despite the Covid-19 pandemic situation. Festo serves a wide range of industries including essential sectors that have thrived during the pandemic such as food, pharmaceutical and life technologies. Additional growth was achieved through technical education hardware sales which continued to grow despite the disruptions to schools and colleges during lockdown.

We regularly review our performance against the UK fluid power market figures published by the BFPA (British Fluid Power Association); although at the time of writing this report, only provisional market figures have been released for 2020 which showed an overall decline of the UK industrial market, we are pleased to announce that Festo had outperformed the market by approximately +12% in 2020. This excellent above market performance and therefore market share gain was down to our innovative solutions as well as Festo being a reliable and trusted partner that has proved to provide enduring value to our customers during times of downturn or market uncertainty.

The strategic vision for Festo Limited continues to be that of sustainable profitable growth providing smart and intuitive solutions for the industrial automation market delivering tangible benefits for our customers. This strategy continued to support our acquisition of new customers during 2020 despite the national lockdown preventing field-based sales activities for most of the year. Festo applies innovative solutions both in our products as well as internally in running the business, therefore we were able to transition quickly to selling through digital customer interfaces due to our continuous investment in global IT infrastructure – the benefits were fully realised during 2020 to maintain market presence and as a result, we continued to win new customers and distributors despite the lockdown restrictions. The Festo support teams in the UK also transitioned overnight to home-based working which meant that staff were able to support customers and deliver the usual expected level of service whilst working from home with minimal service disruptions.

Looking forward, although the outlook for UK engineering and manufacturing sectors will remain challenged due to the pandemic as well as requiring a period of settling after Brexit, the Directors are confident that Festo will continue to bring value to our customers irrespective of those factors and therefore our positive performance in market share acquisition will continue. Furthermore, Festo continues to invest in market leading digitalisation technology, helping our customers to be on the forefront of trends such as Industry 4.0 and smart factories that will drive the ongoing increase in value creation through technology that is expected by customers throughout the supply chain. The pandemic has helped to highlight the agility required by all organisations especially in a manufacturing environment and Festo has once again demonstrated that we are well placed to help our customers to achieve their goals through innovative technology solutions under the demanding conditions

Internally, the Directors continue to encourage a very active involvement from all the Company's employees, in not only working closely with its customers, but also in proactively reviewing our processes to ensure that the Company continues to provide customer orientated services in an efficient and cost effective manner whilst fulfilling the needs of all stakeholders; our stakeholders being our customers, the Company and our employees. Our longer-term strategic

STRATEGIC REPORT (Continued)

progress continued despite the Covid-19 lockdown restrictions and we are pleased to have completed the majority of our strategic projects and activities set out at the start of 2020 despite most employees having to work remotely.

Our sustained growth despite market uncertainties was achievable because of our committed and high performing teams. We continue to focus on the development of our employees to ensure everyone reaches their potential and that Festo Ltd. remains an employer of choice within our industry. After introducing our new Global HR system, SuccessFactors, we have been able to embed all the new practices in 2020 and the new tool has helped all employees and managers to keep track of performance progress remotely during lockdown. As a result, the Directors consider this new implementation to be a success for the company.

Key Performance Indicators

The Directors consider that the key performance indicator (KPI) is the growth the Company achieves against the market, as measured by the BFPA. The goal is to increase our market share and be continuously challenging our direct competitors. Only provisional market growth figures have been published at the time of writing this report, however in considering the markets that Festo has been targeting, the Directors consider 2020 a successful year due to the number of new customers acquired from the competition during the year, as well as consecutive years of growth for strategic accounts. Our distribution sales have also achieved beyond market growth with new partners being onboarded during lockdown. Overall, the provisional market figures indicate that Festo has outperformed the market by approximately +12% which exceeded even our ambitious target. This level of above market performance is a key indication to the Directors of the Company's strategy being successful.

Other KPIs include revenue growth which was a 7.5% increase in 2020 (2019: decline of 0.2%). The Directors are satisfied with this rate of growth given the market uncertainties due to the pandemic as well as the end of the Brexit transition period, and with the gross profit margin which was 36.3% for the year (2019: 38.2%) and in accordance with expectations. Once again, the Directors consider the achievement in these KPIs to be satisfactory especially given the market conditions.

Employee engagement is another important KPI which the Company measures using a regular pulse survey. Performance in 2020 was 104.1% (2019: 102.8%), exceeding the company target and setting a new record for employee engagement score. To achieve this above target performance in 2020 when most employees had to adapt to new ways of working is a continuous demonstration that Festo is an employer of choice therefore attracting top talents within our industry.

Principal Risks and Uncertainties

The Company has identified two principal risks and areas of uncertainty for the business. The first and main risk is the impact to the UK manufacturing economy as a result of the Covid-19 pandemic. Although the roll out of vaccines in the UK will bring optimism to the population, any recovery will remain fragile domestically as well as internationally. The global picture is even more uncertain due to the varying availability of vaccines in different countries. However, the Directors are confident that Festo in the UK will continue to achieve market success despite the uncertainties as the 2020 results have demonstrated. Throughout the 2020 pandemic, Festo Limited has strictly followed advice from the UK Government as well as Festo SE & Co. KG in applying best practices in the workplace. Both Festo locations in the UK were prompted equipped with Covid-safe practices throughout with training conducted for all the staff or visitors that need to access the site as well as issued with full PPE kits. The Company remains optimistic and confident despite the pandemic situation because our products are widely used in key industries such as food processing, pharmaceuticals production as well as life technology industries – these are all sectors that are in high demand during a pandemic. Therefore, the Directors expect demand for Festo's products to continue throughout the Covid-19 crisis. Being an innovative technology company, Festo will continue to adapt our working practices as required to maintain our service levels in accordance with our strong market reputation. The Company has a wide range of online tools and software that enable all employees to operate effectively during any lock down situations. We believe our technologically advanced way of working will create competitive advantages for Festo during the Covid-19 crisis. Throughout the crisis, the health and wellbeing of our employees remain our highest priority and our business decisions are always made with this in mind. By maintaining our employees' wellbeing, Festo Limited is well placed to deliver the high level of service to our customers to minimise supply disruptions.

STRATEGIC REPORT (Continued)

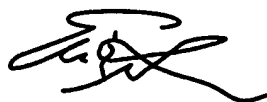
The second identified risk is relating to Brexit with the United Kingdom having departed from the EU on 31st December 2020. At time of writing, there were reports of bottle necks with customs clearance at ports and delays due to bedding in of new processes. Festo Limited has encountered minimal impact in comparison as a result of the preparation carried out since the Brexit referendum in 2016 at our German logistics centre as well as our UK manufacturing site. The risks identified here mainly lie with the general impact on trade and goods movements that are likely to affect our customers' trade and their supply chain. However, the Directors are confident that any resultant impact would be short term and the new customs processes will settle after a period of time.

Corporate Social Responsibility

The Directors and the Company are fully supportive of both corporate and individual activities that contribute to this important area of our business. Over recent years we have continued to expand our connections and support of young engineers through activities and support within universities, higher education and school establishments. Having established a close relationship with the government initiative of STEMNET network (science, technology, engineering and maths), we regularly hold open days for young people to understand more about engineering and the benefits of this as a future career path. Although much of this work had to be paused during the 2020 national lockdown, we expect to resume our work as soon as schools return and restrictions are lifted. Additionally, during 2020, new CSR workgroups were formed to evaluate and propose carbon footprint reduction programmes for Festo Limited further confirming the Company's commitment to Corporate Social Responsibility.

Approved by the Board of Directors and signed

On behalf of the Board



E Rawlings

Director

24th February 2021

DIRECTORS' REPORT

The Directors present their annual report on the affairs of the Company, together with the financial statements and independent auditor's report for the year ended 31 December 2020.

RESULTS AND DIVIDENDS

The Company made a profit after tax for the year ended 31 December 2020 of £2,429,096 (2019: £2,224,221). During the year a dividend of £2,502,000 was proposed and paid in respect of the year (2019: £2,002,516).

DIRECTORS

The Directors who served during the year and up to the date of this report were as follows:

Giampiero Bighiani
Jorg Naumburger
Eliza Rawlings

FINANCIAL RISK MANAGEMENT, OBJECTIVES AND POLICIES

The Directors are aware of the need to review all aspects of risk and carry out a full and very detailed internal risk assessment analysis annually on all aspects of the business to identify risks which are likely to affect the financial stability of the Company.

The management of Festo Limited feels it vitally important to continue with the need to review operating procedures and processes of the Company. As part of this review, the Directors have revisited the risk analysis in light of preparing the Company to refocus on its medium term planning needs.

The Company's activities expose it to a number of financial risks including credit risk, cash flow risk and liquidity risk. The use of financial derivatives is governed by the Company's policies approved by the board of directors, which provide written principles on the use of financial derivatives to manage these risks. The Company does not use derivative financial instruments for speculative purposes.

a) Exchange Risk

Purchasing a significant value of products and services each year from outside the UK inevitably means that management must be mindful of the likely change and effect of changes in the major world currencies and in particular the Euro for Festo Limited. Management has sought to minimise this risk by reducing its exposure by natural hedges within the balance sheet. The parent company also undertakes to hedge major foreign currency variations through the purchase of exchange instruments at group level.

b) Cash Flow Risk

As a general policy the Directors aim to maintain a positive net cash flow result which will enable the Company to be flexible in developing its product and market development strategy. This positive cash status has been maintained during 2020 and into 2021.

c) Credit Risk

The principal financial assets of the Company are bank balances and cash, trade and other receivables. The Company's credit risk is primarily attributable to its trade receivables. The amounts represented in the balance sheet are net of allowances for doubtful receivables; these allowances are made on the basis of knowledge and experience of the customer base and the current understanding of the status of these accounts. The Company operates clearly defined policies and procedures regarding the handling and control of trade receivables, utilising internal and external processes to ensure that risks in this area are minimised.

d) Liquidity Risk

The existing level of monies held within current and deposit accounts in the Company's name mean that there is not currently a requirement for external financing, thereby minimising the risk in this area. It is not expected that this situation will change in the short-term.

DIRECTORS' REPORT (Continued)

GOING CONCERN

The development over the last five years of the business indicates a positive outlook for the future in hopefully improving economic conditions. The Company has a positive cash balance and at present has no requirement for external finance.

The Covid-19 pandemic situation, as referred to in the Principal Risks and Uncertainties section of the Strategic Report, has been considered in terms of its impact on the business outlook for the next twelve months. Various scenarios have been considered in detail and the impact on the Company's revenues, profitability and cashflows has been modelled. Taking into account the current strength of the Company, including strong cash position and expectations for growth on top of the strong 2020 results, the Directors believe that the Company continues to be well-placed to manage its business risks.

Therefore, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus, we continue to adopt the going concern basis in preparing the annual report and accounts.

FUTURE DEVELOPMENTS

The Directors of Festo Limited believe that their proactive sales activity and internal management will continue to provide favourable results compared to the overall market. Expectations are for growth in both the short and medium term and through to our planning horizon of 2021 and beyond.

EVENTS AFTER THE BALANCE SHEET DATE

There have been no significant events since the balance sheet date until the date of this report.

AUDITOR

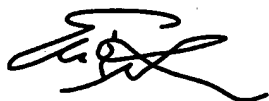
Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board



E Rawlings
Director
24th February 2021

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FESTO LIMITED

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Festo Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 17

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

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.

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 Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FESTO LIMITED

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, 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 FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory framework that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included the UK Companies Act and tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FESTO LIMITED

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

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.



Claire Siviter FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
Southampton
United Kingdom
24th February 2021

PROFIT AND LOSS ACCOUNT
Year ended 31 December 2020

	Note	2020 £	2019 £
Turnover	2	43,174,094	40,152,856
Cost of sales		(27,488,609)	(24,814,514)
Gross profit		15,685,485	15,338,342
Operating expenses	3	(12,590,861)	(12,493,141)
Other operating expense	3	(62,148)	(46,452)
Operating profit		3,032,476	2,798,749
Interest payable and similar charges	4	(11,305)	(21,005)
Profit before taxation	5	3,021,171	2,777,744
Tax charge on profit	7	(592,075)	(553,523)
PROFIT FOR THE FINANCIAL YEAR		<u>2,429,096</u>	<u>2,224,221</u>

All results derive from continuing operations.

There are no comprehensive income or expenses other than the profit for the financial year and the preceding financial year. Accordingly, no statement of comprehensive income is presented.

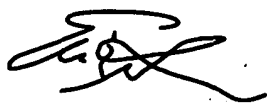
Festo Limited

BALANCE SHEET
As at 31 December 2020

	Note	2020 £	2019 £
FIXED ASSETS			
Tangible assets	9	<u>2,045,436</u>	<u>2,230,478</u>
CURRENT ASSETS			
Stocks	10	1,362,932	1,066,392
Debtors	11	8,118,093	6,014,120
Cash at bank and in hand		<u>2,724,080</u>	<u>3,430,326</u>
		12,205,105	10,510,838
CREDITORS: amounts falling due within one year	12	<u>(4,661,003)</u>	<u>(3,091,158)</u>
NET CURRENT ASSETS		<u>7,544,102</u>	<u>7,419,680</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		9,589,538	9,650,158
Provisions for liabilities	13	<u>(281,138)</u>	<u>(268,854)</u>
NET ASSETS		<u>9,308,400</u>	<u>9,381,304</u>
CAPITAL AND RESERVES			
Called-up share capital	14	4,500,000	4,500,000
Profit and loss account	14	<u>4,808,400</u>	<u>4,881,304</u>
SHAREHOLDER'S FUNDS		<u>9,308,400</u>	<u>9,381,304</u>

These financial statements were approved by the Board of Directors and authorised for issue on 24th February 2021

Signed on behalf of the Board of Directors



E Rawlings

Director

STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2020

	Called up share capital £	Profit and loss account £	Total £
At 1 January 2019	4,500,000	4,659,599	9,159,599
Profit for the financial year and total comprehensive income	-	2,224,221	2,224,221
Dividends paid (note 8)	-	(2,002,516)	(2,002,516)
At 31 December 2019	4,500,000	4,881,304	9,381,304
Profit for the financial year and total comprehensive income	-	2,429,096	2,429,096
Dividends paid (note 8)	-	(2,502,000)	(2,502,000)
At 31 December 2020	<u>4,500,000</u>	<u>4,808,400</u>	<u>9,308,400</u>

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2020

1. ACCOUNTING POLICIES

A summary of the principal accounting policies is set out below. All of the accounting policies have been applied consistently throughout the current and preceding year.

General information and basis of accounting

Festo Limited is a private company limited by shares incorporated in England and Wales under the Companies Act 2006. The address of the registered office is given on page 1. The nature of the Company's operations and its principal activities are set out in the strategic report on pages 2 to 3.

The financial statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The functional currency of Festo Limited is considered to be pounds sterling because that is the currency of the primary economic environment in which the Company operates.

Festo Limited meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its financial statements. Exemptions have been taken in relation to financial instruments, the presentation of a cash flow statement, related parties transactions and remuneration of key management personnel. The Company is consolidated in the financial statements of its parent, Festo SE & Co. KG, which may be obtained from Festo SE & Co. KG, Esslingen, Germany.

Going concern

The current economic conditions naturally create uncertainty over the level of demand for the Company's products and services. The development over the last five years of the business and real progress made during exceptional times (both negative and positive), indicate a positive outlook for the future. The Covid-19 situation, as referred to in the Principal Risks and Uncertainties section of the Strategic Report, has been considered in terms of its impact on the business outlook for the next twelve months. Various scenarios have been considered in detail and the impact on the Company's revenues, profitability and cashflows has been modelled. Taking into account the current strength of the Company, including strong cash position and expectations for growth, the directors believe that the company continues to be well-placed to manage its business risks. Therefore, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus, we continue to adopt the going concern basis in preparing the annual report and accounts

Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the year-end are reported at the rates of exchange prevailing at that date.

Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 1, management are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both the current and future periods. The Directors believe there are no critical accounting judgements having a material impact on the financial statements. There are no estimates, which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Warranty provision

The Company offers warranties for its products. Management estimates the related provision for future warranty claims based on historical warranty claim information, as well as evaluating recent trends that might suggest that past cost information may differ from future claims.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

1. ACCOUNTING POLICIES (CONTINUED)

Impairment of assets

Assets are assessed for indicators of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised in the profit or loss. An asset is impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated recoverable value of the asset has been reduced. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

Tangible fixed assets and depreciation of property, plant and equipment

Fixed assets are stated at cost less accumulated depreciation and provision for impairment. Depreciation is provided to write off the cost, less estimated residual value, of each asset on a straight-line basis over its estimated useful life at the following annual rates:

Freehold buildings	2.5%
Furniture and fittings	10.0-20.0%
Plant and equipment	10.0-20.0%

Freehold land is not depreciated. The asset's residual value and useful life are based on management's best estimates and are reviewed, and adjusted if required, at each Balance Sheet date.

Leases

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are spread on a straight-line basis over the lease term, or, if shorter than the full lease term, over the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate.

Stocks

Stocks and work-in-progress are stated at the lower of cost and net realisable value. Cost incurred in bringing each product to its present location and condition is based on purchase cost on a moving weighted average basis. Net realisable value is based on estimated normal selling price, less any further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

Stock provision

The valuation of stock requires management to estimate obsolete and excess stock as well as stock that is not of saleable quality. The estimate of future demand is compared to stock levels to determine the amount of obsolete or excess stock. If the demand forecast for specific products is greater than actual demand, there may be a requirement to write off stock, which would negatively impact the gross margin.

Turnover

Turnover comprises the value of sales provided in the normal course of business, net of trade discounts and VAT. Turnover is recognised on delivery of the goods from the relevant Festo warehouse. Where installation of goods is required to be performed by Festo, turnover is recognised on completion of the installation process. Turnover from the supply of services represents the value of services provided under contracts to the extent that there is a right to consideration and is recorded at the fair value of the consideration received or receivable. Where a contract has only been partially completed at the balance sheet date turnover represents the fair value of the service provided to date based on the stage of completion of the contract activity at the balance sheet date. Where payments are received from customers in advance of services provided, the amounts are recorded as deferred income and included as part of creditors due within one year.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2020

1. ACCOUNTING POLICIES (CONTINUED)

Taxation (continued)

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements. A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Pension costs

The amount charged to the profit and loss account in respect of pension costs are the contributions payable. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Financial instruments

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

(i) Financial assets and liabilities

All financial assets and liabilities are initially measured at transaction price (including transaction costs).

Financial assets and liabilities are only offset in the balance sheet when, and only when, there exists a legally enforceable right to set off the recognised amounts and the Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Debt instruments which meet the following conditions are subsequently measured at amortised cost using the effective interest method:

- (a) The contractual return to the holder is (i) a fixed amount; (ii) a positive fixed rate or a positive variable rate; or (iii) a combination of a positive or a negative fixed rate and a positive variable rate.
- (b) The contract may provide for repayments of the principal or the return to the holder (but not both) to be linked to a single relevant observable index of general price inflation of the currency in which the debt instrument is denominated, provided such links are not leveraged.
- (c) The contract may provide for a determinable variation of the return to the holder during the life of the instrument, provided that (i) the new rate satisfies condition (a) and the variation is not contingent on future events other than (1) a change of a contractual variable rate; (2) to protect the holder against credit deterioration of the issuer; (3) changes in levies applied by a central bank or arising from changes in relevant taxation or law; or (ii) the new rate is a market rate of interest and satisfies condition (a).
- (d) There is no contractual provision that could, by its terms, result in the holder losing the principal amount or any interest attributable to the current period or prior periods.
- (e) Contractual provisions that permit the issuer to prepay a debt instrument or permit the holder to put it back to the issuer before maturity are not contingent on future events, other than to protect the holder against the credit deterioration of the issuer or a change in control of the issuer, or to protect the holder or issuer against changes in levies applied by a central bank or arising from changes in relevant taxation or law.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2020

1. ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

- (f) Contractual provisions may permit the extension of the term of the debt instrument, provided that the return to the holder and any other contractual provisions applicable during the extended term satisfy the conditions of paragraphs (a) to (c).

Debt instruments that are classified as payable or receivable within one year on initial recognition and which meet the above conditions are measured at an undiscounted amount of the cash or other consideration expected to be paid or received, net of impairment.

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the Company transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the Company, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

(ii) Equity instruments

Equity instruments issued by the Company are recorded at the fair value of cash or other resources received or receivable, net of direct issue costs.

Related party transactions

Under FRS 102, section 33.1A, the Company is exempt from disclosing transactions with its fellow group companies, as the consolidated financial statements of the ultimate parent company are available to the public (see note 17).

2. SEGMENT INFORMATION

All turnover is derived from the Company's principal activity. Turnover by geographical destination was as follows:

	2020 £	2019 £
UK	43,129,645	40,012,242
Other countries	44,449	140,614
	<u>43,174,094</u>	<u>40,152,856</u>

Turnover by category of revenue was as follows:

	2020 £	2019 £
Sale of products	43,056,998	39,760,660
Sale of training and consulting services	117,096	392,196
	<u>43,174,094</u>	<u>40,152,856</u>

Festo Limited

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2020

3. OPERATING EXPENSES

	2020 £	2019 £
Operating expenses		
Distribution costs	1,140,930	1,089,377
Selling & marketing costs and Administrative expenses	11,449,931	11,403,764
	<u>12,590,861</u>	<u>12,493,141</u>
Other operating income		
Other operating expense	<u>62,148</u>	<u>46,452</u>

4. INTEREST PAYABLE AND SIMILAR CHARGES

	2020 £	2019 £
Bank charges	<u>11,305</u>	<u>21,005</u>

5. PROFIT BEFORE TAXATION

Profit before taxation is stated after charging/(crediting):

	2020 £	2019 £
Loss on disposal of fixed assets	15,314	1,271
Depreciation of tangible fixed assets – owned (see note 9)	199,108	217,328
Cost of stock	27,361,890	25,050,443
Movement in inventory provision	(5,640)	(468,502)
Operating lease rentals		
- plant and machinery	194,106	239,953
- other	66,472	100,240
Foreign exchange loss	228,081	47,132
Fees payable to the company's auditor and its associates for the audit of the company's annual financial statements (no services were provided pursuant to contingent fee arrangements):		
-total audit fees	<u>51,521</u>	<u>50,513</u>

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2020

6. STAFF COSTS

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

	2020 £	2019 £
Employee costs during the year amounted to:		
Wages and salaries	6,333,648	6,000,178
Social security costs	717,582	667,566
Other pension costs	385,290	379,962
	<u>7,436,520</u>	<u>7,047,706</u>

The average monthly number of persons employed by the Company during the year was as follows:

	2020 Number	2019 Number
Production	13	13
Sales & Marketing	96	96
Administration	9	11
	<u>118</u>	<u>120</u>

Directors' remuneration and highest paid Director

Directors' remuneration paid in respect of the one (2019: one) director that was paid by the Company was as follows:

	2020 £	2019 £
Emoluments as director	206,138	209,195
Company contributions to money purchase pension scheme	17,381	17,442
	<u>223,519</u>	<u>226,637</u>

	2020 Number	2019 Number
Number of directors who are members of money purchase pension scheme	<u>1</u>	<u>1</u>

The other directors of the Company were paid by other companies within the Group.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2020

7. TAX CHARGE ON PROFIT

The tax charge comprises:

	2020	2019
	£	£
Current tax		
UK corporation tax	613,376	562,902
Adjustment in respect of prior periods	(11,805)	(22,358)
Total current tax	<u>601,571</u>	<u>540,544</u>
Deferred tax		
Movement in short-term timing differences	(9,496)	12,979
Total deferred tax (see note 13)	<u>(9,496)</u>	<u>12,979</u>
Total tax on profit	<u><u>592,075</u></u>	<u><u>553,523</u></u>

The differences between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	2020	2019
	£	£
Profit before taxation	3,021,171	2,777,744
Tax on profit before tax at the standard UK corporation tax rate of 19.00% (2019: 19.00%)	574,022	527,771
Effects of:		
- Expenses not deductible for tax purposes	39,354	35,131
- Movement in short-term timing differences	(9,496)	12,979
- Adjustment in respect of prior periods	(11,805)	(22,358)
	<u><u>592,075</u></u>	<u><u>553,523</u></u>

The standard rate of tax applied to the reported profit is 19.00% (2019: 19.00%).

Festo Limited
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2020
8. DIVIDENDS

	2020 £	2019 £
Dividend of £5.56 per share (2019: £4.45 per share)	2,502,000	2,002,516

9. TANGIBLE FIXED ASSETS

	Land and buildings £	Furniture and fittings £	Plant and equipment £	Total £
Cost				
At 1 January 2020	2,885,493	991,498	1,314,967	5,191,958
Additions	-	-	29,380	29,380
Disposals	-	(318,120)	(446,364)	(764,484)
At 31 December 2020	2,885,493	673,378	897,983	4,456,854
Depreciation				
At 1 January 2020	1,120,532	779,302	1,061,646	2,961,480
Charge for the year	49,637	78,905	70,566	199,108
Disposals	-	(312,813)	(436,357)	(749,170)
At 31 December 2020	1,170,169	545,394	695,855	2,411,418
Net book value				
At 31 December 2020	1,715,324	127,984	202,128	2,045,436
At 31 December 2019	1,764,961	212,196	253,321	2,230,478

Freehold land amounting to £900,000 (2019: £900,000) has not been depreciated.

10. STOCKS

	2020 £	2019 £
Finished goods and goods for resale	345,450	623,429
Work-in-progress	1,017,482	442,963
	1,362,932	1,066,392

There is no material difference between the balance sheet value of stocks and their replacement cost.

Festo Limited

NOTES TO THE FINANCIAL STATEMENTS **Year ended 31 December 2020**

11. DEBTORS

	2020	2019
	£	£
Trade debtors	6,130,049	5,722,219
Amounts owed by other group undertakings	1,811,715	76,804
Other debtors	16,792	17,061
Prepayments and accrued income	159,537	198,036
	<u>8,118,093</u>	<u>6,014,120</u>

The amount of £1,811,715 is receivable from Festo SE & Co KG, which is a parent company of Festo Ltd, with control over the Company. The receivable amount does not include any interest, is unsecured and is fully receivable within one year.

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2020	2019
	£	£
Trade creditors	519,847	148,128
Amounts owed to group undertakings	56,763	297,501
Corporation tax	343,377	282,903
Other creditors		
- VAT	2,305,611	1,011,582
- Social security and PAYE	183,989	161,784
Accruals and deferred income	1,251,416	1,189,260
	<u>4,661,003</u>	<u>3,091,158</u>

Included within accruals and deferred income are outstanding pension contributions of £61,146 (2019: £59,126). The amount of £56,763 is receivable from several entities within the Festo group. All amounts payable amount do not include any interest, are unsecured and are fully repayable within one year. The amount includes £495 payable to Festo SE & Co KG, which is a parent company of Festo Ltd, with control over the Company. The amount of £56,268 is payable to other related parties within the Festo group.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2020

13. PROVISIONS FOR LIABILITIES AND CHARGES

	2020 £	2019 £
Provision for warranties	133,348	111,568
Property-related provision	1,200	1,200
Deferred taxation	146,590	156,086
	<u>281,138</u>	<u>268,854</u>

The provision for warranties relates to the Company's warranty obligations on the sale of its products. The Directors expect the costs associated with this provision to have been largely incurred by December 2022.

The property-related provision relates to amounts to be incurred on the future termination of certain leases held by the Company. The Directors expect the costs associated with this provision to be incurred within a year following the balance sheet date.

The movement in provisions for liabilities and charges comprises:

	Warranties £	Property £	Deferred taxation £
At 1 January 2020	111,568	1,200	156,086
Charged/(released) to profit and loss account	40,497	-	(9,496)
Utilised in year	(18,717)	-	-
At 31 December 2020	<u>133,348</u>	<u>1,200</u>	<u>146,590</u>

The deferred tax liability comprises the following:

	2020 £	2019 £
Deferred taxation		
Accelerated capital allowances	152,529	160,713
Short-term timing differences	(5,939)	(4,627)
	<u>146,590</u>	<u>156,086</u>

14. CALLED-UP SHARE CAPITAL AND RESERVES

	2020 £	2019 £
Called-up, allotted and fully paid		
Equity: 450,000 ordinary shares of £10 each	<u>4,500,000</u>	<u>4,500,000</u>

The Company's other reserve is as follows:

The profit and loss reserve represents cumulative profits or losses, net of dividends paid and other adjustments.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2020

15. FINANCIAL COMMITMENTS

Total future minimum lease payments under non-cancellable operating leases are as following:

	2020 £	2019 £
Lease payments due not later than one year	212,771	225,157
Lease payments due later than one year and not later than five years	134,692	296,411
	<u>347,463</u>	<u>521,568</u>

16. EVENTS AFTER THE BALANCE SHEET DATE

There have been no significant events since the balance sheet date until the date of this report.

17. ULTIMATE PARENT COMPANY & CONTROLLING PARTY

With effect from 18th January 2021, the Company's immediate parent company is Festo International Holding GmbH. The ultimate parent company and controlling party is Festo Beteiligungen GmbH & Co. KG which heads the smallest and the largest group in which the results of Festo Limited are consolidated. The consolidated financial statements of Festo Beteiligungen GmbH & Co. KG are published in the Bundesanzeiger (German Federal Gazette) or are available to the public from Ruiter Strasse 82 Esslingen, 73734, Germany.