

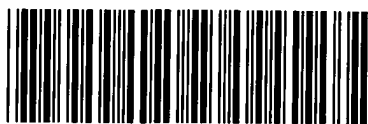
Freudenberg Sealing Technologies Limited

Report and Financial Statements

For the year ended 31 December 2019

Registered No. 10346611

THURSDAY



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COMPANIES HOUSE

Directors

P R C Johnson

L Neuwinger-Heimes

Auditor

Ernst & Young LLP

Citygate

St James' Boulevard

Newcastle upon Tyne

NE1 4JD

Bankers

Barclays Bank PLC

PO Box 190

2nd Floor

1 Park Row

Leeds

LS1 5WU

Solicitors

Knights PLC

34 Pocklington Walk

Leicester

LE1 6BU

Registered Office

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34 Pocklington Walk

Leicester

LE1 6BU

Strategic report

Review of the business

On 1 January 2017, the trade, assets and liabilities of Freudenberg Technical Products LP were transferred to Freudenberg Sealing Technologies Limited, this being the third year of trading for Freudenberg Sealing Technologies Limited.

As part of the business' strategic aim to reduce the number of legal entities, centralise functions and limit administrative costs a number of transactions were undertaken in the prior period. Most notably, there were three significant hive up of subsidiary businesses during 2018; the hive up of Metflex Precision Mouldings Limited, Corteco Limited and Auto Suppliers Limited. As a result, the comparatives versus 2018 is difficult.

2019 performance

Turnover was £70,294,775. The Company recorded a profit after tax of £1,122,220, this profit was driven by restructuring savings and synergy impacts from the hive up activities.

Company position at 31 December 2019

Most major balance sheet items remained relatively stable compared to prior year after adjusting for the hive ups with the exception of the impact of IFRS 16 Lease accounting. The transition impact on right of use assets and lease liabilities was £3,539,230. The balance on the Freudenberg pension fund has changed from a surplus of £4,968,000 at 31 December 2018 to a surplus of £3,833,000 at 31 December 2019.

Key performance Indicators

- Profitability – net profit after tax margin 1.6%
- Growth – turnover increased by 22% largely due to impact of the hive ups.

Principal risks and uncertainties

The principal risks faced by the business are:

- Development and management of the pension scheme surplus;
- Material price rises on components (steel, rubber and oil prices);
- Threat from competitors in low cost countries gaining market share;
- Global economic uncertainty (Brexit, tariffs)
- Exchange rate fluctuations; and
- Volume fluctuations due to unstable economic conditions

Measures were in place to minimise the impact of the above risks during the period.

Impact of COVID-19

At the time of issuing the statutory accounts, there are unprecedented market conditions driven by COVID-19. On 31 January 2020 the World Health Organisation (WHO) declared a public health emergency relating to the outbreak of COVID-19 across the world. This has severely affected many economies as businesses were temporarily forced to close or limit their operations. The COVID-19 crisis has had an impact on the business operations of the company. The business has continued to trade but demand has reduced and where appropriate staff have been furloughed. The company's main customers, being automotive tier and general industry based, were temporarily closed for some weeks but now have

Strategic report

reopened and demands are recovering strongly. The directors expect that the current drop in demand increases the risk that the Company may not be able to achieve its financial goals and forecasts. In arriving at the conclusion that the Going Concern assumption is appropriate, various future financial scenarios have been modelled and stress-tested. These scenarios assumed future forecast revenues anticipated were up to 40% lower than budgeted revenues. These scenarios concluded that future forecast positive cash inflows were generated for the years 2020 and 2021.

However, given the uncertainty the Directors have obtained a letter of support from Freudenberg SE confirming that they will provide support if necessary. To enable the Directors to confirm that Freudenberg can provide this support, forecasts modelling the impact of COVID-19 on the wider Freudenberg group have been prepared and stress-tested. These forecasts conclude that Freudenberg SE has sufficient cash and liquidity to fund the company's operations and there is therefore no material risk that they will be unable to provide financial support to the company for a period of at least 12 months from the issuance date of these financial statements.

Going Concern

The directors have assessed the principle risks and uncertainties, including the ongoing COVID-19 crisis, as discussed above. The directors have also considered the potential impact of Brexit. In preparation for a hard exit the company has built up the level of stock held to reflect approximately 2 months for key customers. They have also considered the likely impact of any additional costs such as duties or increased product costs due to continued reduction in the value of sterling and would look to reflect these in the prices in the market as necessary, and concluded that the company will continue to be able to meet its financial liabilities as they fall due at least twelve months following the signing date of these financial statements. For these reasons, the directors continue to adopt the going concern basis in preparing these financial statements.

Section 172(1) Statement

Section 172 of the Companies Act 2006 requires a director of a company to act in the way he or she considers, in good faith, would most likely promote the success of the Company for the benefit of its members, having regard of its stakeholders. In doing this, s172 requires a director to have regard, among other matters, to the following:

- likely consequences of any decisions in the long term;
- interests of the company's employees;
- need to foster the Company's business relationships with suppliers, customers and others;
- impact of the Company's operations on the community and environment;
- desirability of the Company maintaining a reputation for high standards of business conduct;
- need to act responsibly and fairly.

Corporate Citizenship within Freudenberg extends beyond the value chain. One of the Company's goals is to be a good corporate citizen and good neighbour in all countries, states and communities we call home. Responsibility is an integral component of the Freudenberg spirit, and is reflected in both the Company's quest for greater sustainability and in aid projects.

The Company's s172 statement intends to set out how our Board of Directors, both individually and collectively, has had regard to the above factors when undertaking their duties during 2019.

In discharging their s172 duties, the Directors have regard to the factors set out previously, although sometimes some factors may be more relevant than others. Appropriate regard was also given to other factors considered relevant to the decision being made. It is acknowledged that every decision made by directors will not necessarily result in a positive outcome for all of our stakeholders. However, by giving consideration to key stakeholder groups and aligning our activities with our strategic plan, as well as the Company's culture and values, we aim to act fairly, transparently and in the best interests of the Company over the long term.

As is the case when making decisions and choices, and in setting policies and strategies, the Company's directors also consider associated risks when discharging their duties. The Company ensures that open

Strategic report

lines of communication are maintained with stakeholder groups and consideration is given on ways how engagement and relationships with stakeholders can be improved.

The company identifies its key stakeholders as Freudenberg SE, our employees, customers, suppliers and communities. We consider the environment to be strongly associated to communities and they are often considered together. The Company considers principal decisions to be those decisions taken by the Directors and those decisions which may have a potential material impact on the Company's strategy, a stakeholder group or the long-term value creation of the Company.

The Company's reputation is paramount to the success of the Company's business, as we rely on the satisfaction of our customers. The Company recognises that its culture plays an important role underpinning its sustainable long-term success. The Company has a comprehensive set of policies and procedures in place to ensure high standards of professional conduct.

Details of our key stakeholders and how we have interacted with them during 2019 are shown below:-

Key stakeholder - Freudenberg SE

- Why a key stakeholder? – As part of the Freudenberg SE Group, our strong relationships across the group are imperative to ensure that we support the group in achieving its objectives. Approximately 10% of total sales are made to group companies and specific products are purchased from group companies. Treasury services are also provided by the group.
- How we interact – We have regular communication across all the divisions of the group. Regular update calls are held for the different divisions and results submitted to group on a monthly basis. Each quarter we meet with the Germany Board of Directors for a business review.
- Examples of interactions and principal decisions – all strategic and principal decisions are discussed with our group. Throughout 2019, this includes the stock build plan ahead of Brexit, COVID-19 crisis rules and safety measures and investment in new equipment.

Key stakeholder – Employees

- Why a key stakeholder? - Our people are key, as a family company, we are devoted to our employees' well-being and personal development. We reject all forms of discrimination and harassment and show understanding and respect in our dealings with each other. We promote a multi-cultural environment where employees work together in worldwide teams to enrich our culture and capability.
- How we interact - Employee Town Hall events take place throughout the year, supported by quarterly employee consultation meetings where anything items of relevant from the meeting with the Germany Board of Directors is communicated to the employees. In light of COVID-19, these consultation meetings have not taken place and instead we have issued a monthly newsletter and provided updates via our communication screens in the factory floor or online slide show for office staff. Employees also have access to employee communications and news through the easily accessible Freudenberg Portal. We also support our employees with training programs and the health and safety of our employees is paramount.
- Some examples of the schemes we have run in 2019 are:
 - Better Health At Work Award – achieved Continuing Excellence standard which recognises the company's continued efforts to ensure the good health and wellbeing of employees and their families in both physical and mental health areas.
 - Healthy heart week with information for employees and family including heart healthy recipes, exercise plans, live cookery demonstrations, cholesterol and glucose testing.
 - Onsite occupational health services including osteopathy, physiotherapy and acupuncture.
 - Range of mental health support services including counselling and mental health awareness training.
 - Health Plan – supporting employees with costs for a range of treatments e.g. rebate on dental treatment.

Strategic report

Key stakeholder – Customers

- Why a key stakeholder? – Our customers always come first for us, in everything we do – particularly in these uncertain economic times with challenging market conditions. Our customers trust us and appreciate our products and services. We thank all our customers and partners for this and especially for the excellent cooperation. Now more than ever, our goal is to recognize the demands of tomorrow's customer today, understand their needs, work closely with them – and most important – actively reach out to them.
- How we interact - The sales and customer service teams in Germany contact the customers on commercial topics, while the UK team contact customers on new innovations, product designs and engineering issues where we can help the customer by giving them a new innovative sealing solution. Prior to the COVID-19 pandemic, this was carried by site visits from our R&D team, now we do this online and have started virtual trade fairs.
- Examples of interactions and principal decisions – The virtual trade fairs have resulted in the design and order of new products, for example the Trek Cycle which was developed in the year.

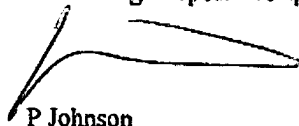
Key stakeholder – Suppliers

- Why a key stakeholder? - Our suppliers support us and we rely on their products and services to run our business successfully.
- How we interact – The purchasing and quality departments hold regular reviews with suppliers to discuss commercial topics and potential improvements to the supply chain.
- Examples of interactions and principal decisions – In 2019, we changed our major metal parts supplier from a local UK company to Freudenberg Germany and Italy because of the discussions with the UK supplier over delivery performance and unrealistic commercial topics.

Key stakeholder – Communities

- Why a key stakeholder? - We support our local community and pride ourselves in being responsible corporate citizens in our area.
- How we interact – We run various events and initiatives with local communities to interact with local citizens.
- Examples of interactions – In 2019, we have supported the following events:
 - New York Primary School - Working on submission of e² project, supporting with STEM workshops, assemblies etc.
 - Burnside College (secondary school) - Supporting the school with their careers service and achievement of the Gatsby Good Career Guidance Benchmark (2 employees are Local Enterprise Advisors)
 - Newcastle University – supporting engineering students with practical experience
 - Supporting work experience placements from a variety of local schools
 - Save the Children - Christmas Jumper Day appeal
 - Cash for Kids – Christmas present appeal
 - Macmillan Cancer Support – coffee morning
 - North Tyneside Council Love Your Street campaign – litter picking teams
 - Newcastle West End Food Bank – food donations and volunteering in the centre.

The strategic report was approved by order of the Directors and signed on their behalf by:



P Johnson

Director

1 December 2020

Directors' report

The directors present their report and the financial statements as at and for the year ended 31 December 2019. The Strategic Report, as detailed on page 2, covers the areas of Review of the Business, risks and key performance indicators.

Principal activity

The company is principally engaged in the manufacture and distribution of fluid sealing products and shock absorber components.

Results and dividends

The profit for the year after tax amounted to £1,122,220 (2018: £4,735,174). The directors do not recommend a distribution of profits.

Future prospects and going concern

At the time of issuing the statutory accounts, there are unprecedented market conditions with market implications driven by COVID-19 pandemic, (See Subsequent & Post Balance Sheet Events below). The directors have considered the impact of the current economic environment, when preparing their latest 2020 and 2021 forecasts.

The directors have also considered the potential impact of Brexit. In preparation for a hard exit the company has built up the level of stock held to reflect approximately 2 months for key customers. They have also considered the likely impact of any additional costs such as duties or increased product costs due to continued reduction in the value of sterling and would look to reflect these in the prices in the market as necessary.

The Company's statutory financial statements for the year 2019 have been prepared on a going concern basis, which the directors believe to be appropriate. Freudenberg Sealing Technologies Limited is generating sufficient funds from its operations to meet its current and future obligations for the period to 31 December 2021.

The company has access to considerable financial resources together with long-standing relationships with a number of key customers and suppliers across different geographic areas and industries. Specific measures have been implemented to increase the workforce resilience, and to ensure adequate protection for our people.

If required, financial support by the Company's parent Freudenberg SE has been evidenced as being available to the Company. Freudenberg SE as major shareholder will continue to provide financial support to the Company to the extent necessary to enable the Company to continue to trade and pay its liabilities as and when they become due. This support is expected to continue for a minimum period of twelve months from the date of approval of these accounts.

The Company participates within a group cash pool arrangement with no credit lines for individual entities, the cash facilities of the UK cash pool are open to every cash pool participant.

The company's financial forecasts, taking into consideration the current environment, show that the company is expected to remain profitable and generate positive cash flows giving the company the ability to continue to operate for the foreseeable future. Accordingly, the directors of the company believe that it is appropriate to adopt the going concern basis in preparing the financial statements.

As a consequence, the directors believe that the company is well placed to manage its business risks successfully.

Future developments

The directors aim to maintain the management policies which have resulted in the business's growth in recent years (both within the previous entity of a limited partnership and in its current format of this company). The impact of the COVID crisis in 2020 will lead to a reduction in sales of up to 20%, however, the expectation for 2021 and beyond is a strong recovery in the sales back to or above 2019 levels as the COVID crisis reduces and global economies rebound strongly.

Directors' report

Directors

The directors at 31 December 2019 were as follows:

P R C Johnson

L Neuwinger-Heimes

Financial risk management policy

The company's principal financial instruments comprise cash and cash equivalents. Other financial assets and liabilities, such as trade debtors, trade creditors and group balances, arise directly from the company's operating activities.

The main risks associated with the company's financial assets and liabilities are set out below.

Given that the majority of the risks below derive from transactions with other Freudenberg group companies, the company does not undertake any hedging activity locally. Significant financial risks from a Freudenberg group perspective are addressed on a case-by-case basis at group level.

Interest rate risk

The company invests surplus cash in, and borrows cash from, a floating rate interest yielding/paying intercompany cash pool. Therefore financial assets, liabilities, interest income and interest charges and cash flows can be affected by movements in interest rates.

Price risk

The company does not deem the exposure to price changes in their operating activity costs to be significant enough to consider any hedging activity.

Credit risk

The company's policies are aimed at minimising such losses, and require that deferred terms are granted only to customers who demonstrate an appropriate payment history and satisfy creditworthiness procedures. Individual exposures are monitored with customers subject to credit limits to ensure that the company's exposure to bad debts is not significant. Goods may be sold on a cash-with-order basis to mitigate credit risk.

Liquidity risk

The company aims to mitigate liquidity risk by managing cash generated by its operations. Capital expenditure is approved at group level. Flexibility is maintained by retaining surplus cash in readily accessible bank financial statements and group cash pools.

Foreign currency risk

The company's principle transactions in foreign currency are with Freudenberg group companies and arise directly from the group's operating activities. As a result, the company's cash flows arising from these transactions can be affected by movements in the Euro, US Dollar and Japanese Yen exchange rates. No hedging activity is undertaken locally to mitigate this risk.

Research and development

Research and development is concentrated on the development of enhanced performing shock absorber and steering components.

Disabled employees

The company gives full consideration to applications for employment from disabled persons where the candidate's particular aptitudes and abilities are consistent with adequately meeting the requirements of the job. Opportunities are available to disabled employees for training, career development and promotion.

Where existing employees become disabled, it is the group's policy to provide continuing employment wherever practicable in the same or an alternative position and to provide appropriate training to achieve this aim.

Directors' report

Employee involvement

The company operates a framework for employee information and consultation which complies with the requirements of the Information and Consultation of Employees Regulations 2004. The company places considerable value in the involvement of its employees and continues to keep them informed on matters affecting the performance of the company. This is achieved through formal and informal meetings and a group magazine. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests.

Environmental

Freudenberg Sealing Technologies Limited has a responsibility to comply with the highest ethical and legal standards while protecting the environment and benefiting society as a whole.

Political and charitable contributions

Charitable contributions of £2,315 were made in the year.

Subsequent & post balance sheet events

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.

Freudenberg Sealing Technologies Limited continues to operate in countries that have been affected by the pandemic. Operations have been impacted by actions and initiatives which have been implemented by the Company in relating to its own working arrangements and operations and has been additionally impacted by those restrictions occurring at operations of end customers which are located worldwide.

Those measures and actions implemented by the company include social distancing, home working and where appropriate furloughing staff. During the COVID-19 pandemic, the company has adhered and complied with all relevant UK Government working arrangement guidelines and are aligned with the wider associated Freudenberg Group issued guidelines.

As part of Budget 2020, the government announced the reduction in the corporate income tax rate to 17% that was previously enacted to be effective from 1 April 2020 would be cancelled. The cancellation has been made effective by way of Budget Resolution. Consequently, the corporation income tax rate remains at 19%. Further details on the effect of the corporate income tax rate reduction cancellation on the deferred tax balance can be found in note 7.

Directors' report

Disclosure of information to auditor

In the case of the persons who are directors of the company at the date when this report is approved;

- So far as each of the directors is aware, there is no relevant audit information of which the company's auditor is unaware, and
- Each of the directors has taken all the steps that they ought to have taken as a director to make themselves 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.

In accordance with section 487(2) of the companies Act 2006, PricewaterhouseCoopers will be appointed as auditor of the Company and Ernst & Young LLP will resign as auditor.

By order of the directors



P MacDougall

Secretary

1 December 2020

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards and applicable law including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

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

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

Independent auditors' report

to the members of Freudenberg Sealing Technologies Limited

Opinion

We have audited the financial statements of Freudenberg Sealing Technologies Limited for the year ended 31 December 2019 which comprise the Income Statement, the Statement of Comprehensive Income, the Balance Sheet and the Statement of Changes in Equity and the related notes 1 to 22, 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 – Effects of COVID-19

We draw attention to Note 22 of the financial statements, which describes the potential financial and operational impact the company is facing as a result of COVID-19 which is impacting supply chains, consumer demand and personnel available for work and being able to access offices. Our opinion is not modified in respect of this matter.

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.

Independent auditors' report

to the members of Freudenberg Sealing Technologies Limited

Other information

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

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 10 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.

Independent auditors' report

to the members of Freudenberg Sealing Technologies Limited

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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

Handwritten signature of Caroline Mulley in black ink, appearing as 'Ernst + Young W'.

Caroline Mulley (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Newcastle upon Tyne
1 December 2020

Income statement

for the year ended 31 December 2019

	<i>Note</i>	<i>2019</i> £	<i>2018</i> £
Turnover	2	70,294,775	57,524,398
Cost of sales		<u>(56,263,249)</u>	<u>(46,514,368)</u>
Gross profit		14,031,526	11,010,030
Administrative expenses		<u>(13,084,095)</u>	<u>(10,277,952)</u>
Operating profit	3	947,431	732,078
Profit on disposal of tangible fixed assets		33,110	21,514
Interest payable and similar charges	5	(305,666)	(241,936)
Dividends received	10	-	51,968,278
Impairment loss on investments	10	<u>-</u>	<u>(47,875,650)</u>
Profit before taxation		674,875	4,604,284
Tax credit on profit	7	<u>447,345</u>	<u>130,890</u>
Profit for the financial year		<u>1,122,220</u>	<u>4,735,174</u>

The operating result for the current period arises from continued operations.

Statement of comprehensive income

for the year ended 31 December 2019

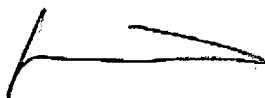
	Note	2019 £	2018 £
Profit for the financial year		<u>1,122,220</u>	<u>4,735,174</u>
Other comprehensive loss:			
Items that cannot be reclassified to profit or loss:			
Remeasurement losses on defined benefit pension plan	18	(1,277,000)	(1,349,000)
Deferred tax on:			
Remeasurement losses/(gains) for the year	7	242,630	256,310
Items that can be reclassified to profit or loss:			
Deferred tax arising on pooling of interests		-	-
Other comprehensive loss for the year		<u>(1,034,370)</u>	<u>(1,092,690)</u>
Total comprehensive income for the year		<u>87,850</u>	<u>3,642,484</u>

Balance sheet

at 31 December 2019

	Note	2019 £	2018 £
Fixed assets			
Intangible assets	8	16,068,660	16,783,835
Tangible assets	9	14,424,792	11,930,617
Investments	10	2	2
		<u>30,493,454</u>	<u>28,714,454</u>
Current assets			
Stocks	11	9,402,592	10,715,221
Debtors	12	12,423,264	14,979,107
Cash at bank and in hand		23,423	135,927
		<u>21,849,279</u>	<u>25,830,255</u>
Creditors: amounts falling due within one year	13	<u>(15,580,721)</u>	<u>(19,957,005)</u>
Net current assets		<u>6,268,558</u>	<u>5,873,250</u>
Total assets less current liabilities		<u>36,762,012</u>	<u>34,587,704</u>
Creditors: amounts falling due after one year	13	<u>(2,416,302)</u>	<u>-</u>
Provisions for liabilities and charges	13, 14	<u>(1,861,088)</u>	<u>(3,325,932)</u>
Pension surplus	18	<u>3,833,000</u>	<u>4,968,000</u>
Net assets		<u>36,317,622</u>	<u>36,229,772</u>
Capital and reserves			
Called up equity share capital	15	27,223	27,223
Share premium	16	27,195,777	27,195,777
Profit and loss account	16	<u>9,094,622</u>	<u>9,006,772</u>
Shareholders' funds		<u>36,317,622</u>	<u>36,229,772</u>

The financial statements were approved by the directors on 1 December 2020 and were signed on its behalf by:



P Johnson
Director

Statement of changes in equity

for the year ended 31 December 2019

	<i>Share capital</i>	<i>Profit and loss account</i>	<i>Total</i>
	£	£	£
At 1 January 2019	27,223,000	9,006,772	36,229,772
Profit for the financial year	-	1,122,220	1,122,220
Other comprehensive loss for the year	-	(1,034,370)	(1,034,370)
Total comprehensive profit for the year	-	87,850	87,850
At 31 December 2019	27,223,000	9,094,622	36,317,622

Notes to the financial statements

at 31 December 2019

1. Accounting policies

Statement of Compliance

Freudenberg Sealing Technologies Limited is a private limited liability company, limited by shares, incorporated and domiciled in England. The Registered Office is c/o Knights PLC, 34 Pocklington Walk, Leicester, LE1 6BU.

The financial statements of Freudenberg Sealing Technologies Limited (the "company") for the year ended 31 December 2019 were authorised for issue by the directors and the balance sheet was signed on the directors' behalf by P Johnson.

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 GBP Sterling.

The Company has taken advantage of the exemption under s400 of the Companies Act 2006 not to prepare group financial statements as it is a wholly owned subsidiary of Freudenberg SE, a German limited partnership. The results of Freudenberg Sealing Technologies Limited are included in the consolidated financial statements of Freudenberg SE, copies of which are available from Freudenberg SE, Höhrnerweg 2-4, Weinheim, Germany, 69469.

Fundamental accounting concept

The directors have assessed the principle risks and uncertainties, including the ongoing COVID-19 crisis. The directors have also considered the potential impact of Brexit. In preparation for a hard exit the company has built up the level of stock held to reflect approximately 2 months for key customers. They have also considered the likely impact of any additional costs such as duties or increased product costs due to continued reduction in the value of sterling and would look to reflect these in the prices in the market as necessary. and concluded that the company will continue to be able to meet its financial liabilities as they fall due at least twelve months following the signing date of these financial statements. For these reasons, the directors continue to adopt the going concern basis in preparing these financial statements, which assumes that the company will continue in operational existence for the foreseeable future and meet its liabilities as they fall due.

The company has net current assets of £3,852,256 including amounts owed to other group undertakings of £10,314,798. Freudenberg SE has agreed to provide sufficient funds to the company to enable it to meet its liabilities as they fall due and has confirmed the availability of such support for a minimum of 12 months from the date of approval of these financial statements. In view of the circumstances referred to above, the directors are satisfied that financial support will be available to the company for the foreseeable future. Accordingly, the directors of the company believe that it is appropriate to adopt the going concern basis in preparing the financial statements.

However, should sufficient continuing finance not be available, the going concern basis would be invalid and adjustments would have to be made to provide for any further liabilities which might arise and to reclassify fixed assets and long term liabilities as current assets and liabilities.

Basis of preparation

The accounting policies which follow set out those policies which apply in preparing the financial statements for the period ended 31 December 2019. The Company has taken advantage of the following disclosure exemptions under FRS 101:

•	the requirements of IFRS 7, <i>Financial Instruments: Disclosures</i> ;
•	the requirements of paragraphs 91 to 99 of IFRS 13, <i>Fair Value Measurement</i> ;
•	the requirement in paragraph 38 of IAS 1, <i>Presentation of Financial Statements</i> , to present comparative information in respect of:
	paragraph 79(a)(iv) of IAS 1;

Notes to the financial statements

at 31 December 2019

1. Accounting policies (continued)

	- paragraph 73(e) of IAS 16, <i>Property, Plant and Equipment</i> ; and
	- paragraph 118(e) of IAS 38 – <i>Intangible Assets</i> .
•	the requirements of paragraphs 10(d), 10(f), 16, 38A to 38D, 40A to 40D and 111 and 134 to 136 of IAS 1;
•	the requirements of IAS 7, <i>Statement of Cash Flows</i> ;
•	the requirements of paragraphs 30 and 31 of IAS 8, <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> ;
•	the requirements of paragraphs 17 and 18A of IAS 24, <i>Related Party Disclosures</i> ;
•	the requirements in IAS 24 to disclose related party transactions entered into between two or more members of a group;
•	the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36, <i>Impairments of Assets</i> ;
•	the requirements of the second sentence of paragraph 110 and paragraphs 113 (a), 114, 115, 119 (a) to (c), 120 to 127 and 129 of IFRS 15, <i>Revenue from Contracts with Customers</i> , as applicable.
•	the requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 as well as the requirements of paragraph 58 of IFRS 16, as applicable.

Changes in accounting policies

IFRS 16 Leases

The Company has adopted IFRS 16 from its mandatory adoption date 1 January 2019 using the modified retrospective approach as permitted under the specific transition provisions in the standard. As a result, comparatives have not been restated.

As at 1 January 2019, the Company has recognised lease liabilities amount to £3,539k and associated right-of-use assets amounting to £3,539k in relation to contracts that have been concluded as leases under the principles of IFRS 16.

On adoption of IFRS 16, the Company recognised lease liabilities for each lease which had previously been classified as an 'operating lease' under *IAS 17: Leases*. The liabilities were measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate. The associated right-of-use assets are measured at the amount equal to the lease liabilities, adjusted by the amount of prepayments relating to that lease recognised in the statement of financial position as at 31 December 2018. The Company's borrowing rate applied to the lease liabilities with a term of less than 5yrs is 1.77% and with a term of greater than 5yrs is 2.17%.

As a consequence of using the modified retrospective approach, the carrying amounts of the assets and liabilities previously recognised as 'finance leases' under *IAS 17: Leases*, are transferred to IFRS 16 without any valuation difference.

The Company has not used the transition practical expedient of applying IFRS 16 to only those contracts that were previously identified as leases under IAS 17 (and IFRIC 4). In adopting IFRS 16, the Company has applied the following practical expedients:

- The use of a single discount rate to a portfolio of leases with reasonable similar characteristics;
- Exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application;

Notes to the financial statements

at 31 December 2019

1. Accounting policies (continued)

- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Company has elected not to apply the requirements of IFRS 16 to low value assets. The exemption applied only to those leases whose underlying assets have a market value below £5,000 and would not be classified as one of the following asset classes:

- Land and buildings;
- Passenger cars;
- Forklift trucks;
- IT infrastructure;

The following table shows the reconciliation of operating lease commitments under IAS 17 to the lease liabilities under IFRS 16 on 1 January 2019:

	1 January 2019 £'000
Operating lease commitments disclosed as at 31 December 2018	3,884
Discounted using the lessee's incremental borrowing rate at date of initial application	-273
Add finance leases recognised at 31 December 2018	-
Less low value leases not recognised as a liability	-54
Other	-18
Lease liabilities recognised at 1 January 2019	3,539
Of which are:	
Current lease liabilities	665
Non-current lease liabilities	2,874
	3,539

Judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the period. However, the nature of estimation means that actual outcomes could differ from those estimates.

The following judgements and estimates have had the most significant effect on amounts recognised in the financial statements:

- Pension benefits

The costs of the defined benefit pension plan are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long

Notes to the financial statements

at 31 December 2019

1. Accounting policies (continued)

term nature of the plan, such estimates are subject to significant uncertainty. Further details are given in Note 18.

- Provisions

A provision is recognised when the Company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

There can be estimation involved in determining the provision to be made. Further details are given in Note 13(b).

- Goodwill impairment

The composition of cash-generating unit and the determination of recoverable amount for the performance of impairment tests is connected with assessments made by management concerning future developments and experience gained in the past. The cash flows predicted on the basis of these assessments may be affected by factors including volatility of capital markets, exchange rate fluctuations and expected economic developments. The weighted average cost of capital (WACC) used for discounting take into account market risk and the capital structure of the companies comparable to the applicable cash generating units. Changes in these factors may have significant impact on the existence or amount of impairment. Further details are given in Note 8.

Other significant accounting policies

Fixed assets and depreciation

Property, 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. Borrowing costs directly attributable to assets under construction and which meet the recognition criteria in IAS 23, *Borrowing Costs*, are capitalised as part of the cost of that asset.

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

Freehold property	- over 50 years
Leasehold property	- over the life of the lease
Plant and machinery	- 13-15 years
Fixtures and fittings	- 15 years
Tooling	- 5 years
Motor vehicles	- 6 years
Office equipment	- 5 years
Right of use assets	- over the life of the lease

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. Useful lives and residual values are reviewed annually and, where adjustments are required, these are made prospectively.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the derecognition of the asset is included in the income statement in the period of derecognition.

Notes to the financial statements

at 31 December 2019

1. Accounting policies (continued)

Intangible fixed assets

Licences are capitalised as intangible fixed assets at cost and are amortised over the life of the licence.

Knowhow and customer lists acquired in a business combination are amortized on a systematic basis over useful lives of up to 15 years. The amortisation charge is recognised within cost of sales in the income statement. Intangible assets with finite useful lives are reviewed for impairment if events or changes in circumstances indicate that carrying value may not be recoverable, and are written down immediately to their recoverable amount.

An impairment test is carried out on goodwill at least once per year. For impairment test, the goodwill acquired is allocated to the cash-generating units expected to benefit from the business combination. An impairment loss is recognized if the carrying amount of the cash-generating unit, including goodwill, is higher than its recoverable amount. The recoverable amount is the value-in-use of the cash-generating unit.

The value in use of the cash-generating units is determined using discounted cash flow method on the basis of budgeted profit and loss and cash flows for period of 5 years. The discount rates used for the determination of the value in use are based on the WACC determined separately for each cash-generating unit.

Investments

Investments held as fixed assets are held at historical cost less any provision for impairment.

Foreign currencies

The company's financial statements are presented in GBP (£) sterling, which is also the Company's functional currency.

Transactions in foreign currencies are initially recorded in the Company'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 of exchange ruling at the balance sheet date. All differences are taken to the income statement.

Provisions 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 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.

Leases

Leases are recognised as right-of-use assets along with their corresponding liabilities at the date at which the leased assets are available for use by the Company. Each lease payment is allocated between the liability and finance cost. The finance cost is recognised in the income statement over the lease term. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. In such cases where the ownership of the underlying asset is transferred to the lessee by the end of the lease term or where the cost of the right-of-use asset reflects that the lessee will exercise a purchase option, the right-of-use asset shall always be depreciated over the useful life of the underlying asset.

Right-of-use assets are initially measured at cost comprising, where applicable, the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement date, any initial direct costs and any restoration costs, less any lease incentives received.

Lease liabilities include, where applicable, the net present value of fixed payments including in-substance fixed payments and service components, variable lease payments that depend on an index or a rate, amounts expected to be payable by the lessee under residual value guarantees, the exercise price of a

Notes to the financial statements

at 31 December 2019

1. Accounting policies (continued)

purchase option is the lessee is reasonably certain to exercise that option, payments of penalties for terminating the leases, if the lease term reflects the lessee exercising an option to terminate the lease, less lease incentives receivable from the lessor.

Short-term and low value assets' leases

IFRS 16 contains two recognition exemptions for assets that need not be capitalised. The Company applies these exemptions only to those assets which would not be classified as land and building, passenger cars, forklift trucks and IT infrastructure.

Short-term leases are leases that, at the commencement date, have a lease term of 12 months or less. Low-value assets are items that do not meet the Company's capitalisation thresholds and are considered to be insignificant for the statement of financial position for the Company as a whole. Payments for short term leases and leases of low-value assets are recognised on a straight-line basis in the income statement.

Variable lease payments

Some leases contain variable payments that are linked to the usage or performance of the leases. Such payments are recognised in the income statement and do not have an impact on the calculation of right-of-use asset and lease liability.

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 applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade debtors. To measure the expected credit losses, trade debtors are grouped based on shared credit risk characteristics and the days past due.

Stocks

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

Raw materials and consumables -purchase cost on a first-in, first-out basis

Work in progress and finished goods -cost of direct materials and labour plus attributable overheads based on a normal level of activity, excluding borrowing costs

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

Revenue recognition

Under IFRS 15, revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange of those goods or services. The Company has generally concluded that it is the principal in its revenue arrangements because it typically controls the goods or services before transferring them to the customer. The timing of revenue recognition for the Company's main revenue stream follows:

Sale of goods

Revenue from the sale of goods is recognised at the point in time when control of the goods is transferred to the customer, usually on dispatch of the goods. In determining the transaction price, the Company considers the effects of variable consideration, the existence of significant financing components, non-cash consideration, and consideration payable to customer (if any).

Notes to the financial statements

at 31 December 2019

1. Accounting policies (continued)

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.

Research and development expenditure

Research costs are expensed as incurred.

Taxation

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.

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.

Post-retirement benefits

The company contributes to a defined benefit pension plan which requires contributions to be made to a separately administered fund. Contributions to defined contribution schemes are recognised in the income statement in the period in which they become payable. From 1 April 2012, following closure of future accrual of the group wide defined benefit pension scheme, the company now contributes to a group wide defined contribution pension 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 remeasured 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.

Remeasurements, 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.

Notes to the financial statements

at 31 December 2019

1. Accounting policies (continued)

The defined benefit pension asset or liability in the balance sheet comprises the total 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.

2. Turnover

All turnover and operating profit is derived from the continuing principal activity, being the manufacture and distribution of fluid sealing products and shock absorber components. Turnover is analysed by geographical market as follows:

	<i>Year ended 31 December 2019 £</i>	<i>Year ended 31 December 2018 £</i>
European Community	56,148,279	47,860,417
Rest of Europe	2,191,572	1,802,520
North America	9,331,565	5,366,348
Latin America	390,576	506,588
Japan and the Far East	2,052,042	1,880,016
Australia, Oceania	52,263	1,059
Africa	128,478	107,450
	<u>70,294,775</u>	<u>57,524,398</u>

Notes to the financial statements

at 31 December 2019

3. Operating profit

This is stated after charging/(crediting):

	<i>Year ended 31 December 2019 £</i>	<i>Year ended 31 December 2018 £</i>
Depreciation charge on tangible fixed assets – owned and leased	2,029,915	1,201,644
Amortisation charge on intangible fixed assets	715,175	86,445
Operating leases - hire of other assets	-	441,827
- land and buildings	-	508,913
Research and development expenditure	3,049,573	3,157,374
Auditors' remuneration - audit of these financial statements	66,201	71,875
Exchange loss/(gain)	405,574	(105,047)
Increase in dilapidation provision (Note 13(b))	12,723	102,000
Cost of stocks recognised as expense (included in cost of sales)	47,197,921	42,794,019
Including– write-down of stocks net realisable value	133,193	(140,381)
Pension - past service costs (Note 18)	-	299,000

4a. Staff costs

	<i>Year ended 31 December 2019 £</i>	<i>Year ended 31 December 2018 £</i>
Wages and salaries	13,020,904	12,721,508
Social security costs	1,488,532	1,376,008
Pension costs – defined contribution scheme	1,057,757	1,026,595
	<u>15,567,193</u>	<u>15,124,111</u>

The average number of persons employed by the company, analysed by category, during the period was:

	<i>2019 No.</i>	<i>2018 No.</i>
Sales and distribution	61	39
Administration	53	62
Production	223	197
	<u>337</u>	<u>298</u>

Notes to the financial statements

at 31 December 2019

4b. Directors' remuneration

	<i>Year ended 31 December 2019</i>	<i>Year ended 31 December 2018</i>
	<i>£</i>	<i>£</i>
Directors' emoluments	246,412	369,765
Company contributions paid to defined contribution pension schemes	-	4,540
	<u>246,412</u>	<u>374,305</u>

This is also the remuneration in respect of the highest paid director.

Certain directors are remunerated for their services to the European Group, as a whole, of which the Company is a member. No charge is made to the Company for the remuneration of the directors who serve the European Group. The proportion of services relating to the Company is immaterial.

5. Interest payable and similar charges

	<i>Year ended 31 December 2019</i>	<i>Year ended 31 December 2018</i>
	<i>£</i>	<i>£</i>
Interest expense – lease liabilities IFRS 16	(69,518)	-
Interest expense - group undertakings	(236,148)	(241,936)
	<u>(305,666)</u>	<u>(241,936)</u>

6. Other finance income

	<i>Year ended 31 December 2019</i>	<i>Year ended 31 December 2018</i>
	<i>£</i>	<i>£</i>
Interest cost on pension scheme liabilities	(1,637,000)	(1,726,000)
Interest income on pension scheme assets	1,779,000	1,900,000
Net finance income (Note 18)	<u>142,000</u>	<u>174,000</u>

The net finance income is recorded within cost of sales on the income statement.

Notes to the financial statements

at 31 December 2019

7. Taxation

a) Tax charge in income statement

	Year ended 31 December 2019 £	Year ended 31 December 2018 £
<i>Current income tax</i>		
UK Corporation tax (charge)/credit	(82,919)	154,847
Adjustment in respect of prior periods	(186,673)	-
Total Current Tax	(269,592)	154,847
<i>Deferred tax</i>		
Origination and reversal of timing differences	99,167	(23,957)
Adjustment in respect of prior periods	617,770	-
Total Deferred Tax	716,937	(23,957)
Tax on profit (note 7(c))	447,345	130,890

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

	Year ended 31 December 2019 £	Year ended 31 December 2018 £
<i>Deferred tax</i>		
Remeasurement gains on defined benefit pension plan on:		
Remeasurement losses for the year	(242,630)	(256,310)
Deferred tax on pooling of interests	-	-
Total deferred tax charged to other comprehensive income	(242,630)	(256,310)

c) Factors affecting current tax charge

The tax assessed on the profit for the year is different to the standard rate of corporation tax in the UK of 19%. The differences are reconciled below:

	Year ended 31 December 2019 £	Year ended 31 December 2018 £
Profit before taxation	674,875	4,604,284
Profit multiplied by standard rate of corporation tax in the UK of 19% (2018:19%)	128,226	874,814
Adjustments in respect of prior periods	(431,098)	(256,876)
Unrecognised losses used in current year	-	-
Non-deductible expenses	99,679	4,998,521
Non-taxable income	-	(5,747,349)
Rate differences	(244,152)	-
Total tax (credit) to the income statement	(447,345)	(130,890)

Notes to the financial statements

at 31 December 2019

d) Factors that may affect future tax charges:

The standard rate of UK corporation tax reduced from 20% to 19% from 1 April 2017 and was expected to reduce to 17% from 1 April 2020, the changes were substantively enacted on 26 October 2015 and 6 September 2016, respectively. The rate of 17% has been applied to the Company's deferred tax liability at the balance sheet date.

Subsequent to the balance sheet date, as part of Budget 2020, the government announced the reduction in the corporate income tax rate to 17% that was previously enacted to be effective from 1 April 2020 would be cancelled. The cancellation has been made effective by way of Budget Resolution. Consequently, the corporation income tax rate remains at 19%. This is considered to be a non-adjusting post balance sheet event and therefore the deferred tax liability at 31 December 2019 continues to be calculated using a rate of 17%. The impact on the deferred tax liability had 19% been used is £158,010.

8. Intangible fixed assets

	<i>Knowhow</i> £	<i>Licences</i> £	<i>Goodwill</i> £	<i>Customer lists</i> £	<i>Total</i> £
Cost:					
At 31 December 2018	2,163,013	162,682	10,022,566	4,684,701	17,032,962
Additions	-	-	-	-	-
At 31 December 2019	2,163,013	162,682	10,022,566	4,684,701	17,032,962
Accumulated amortisation:					
At 31 December 2018	26,398	162,682	-	60,047	249,127
Charge for the year	158,268	-	-	556,907	715,175
At 31 December 2019	184,666	162,682	-	616,954	964,302
Net book value:					
At 31 December 2018	2,136,615	-	10,022,566	4,624,654	16,783,835
Net book value:					
At 31 December 2019	1,978,347	-	10,022,566	4,067,747	16,068,660

Goodwill is split between the acquisition of Auto Supplier Limited £1,257,703 and Metflex Precision Mouldings Limited £8,764,863

Goodwill was subjected to an impairment test in the financial year 2019. Management treated each business from the hive-ups as separate cash generating unit (Metflex and Auto Suppliers businesses). The key assumptions used for determining the value in use of the cash generating units include a long-term growth rate of 1.0%, sales growth rate ranging from -1% to 5.5%, post-tax WACC of 6.1% and net working capital as percentage of sales. Cash flows from 5 years were considered. On this basis, no impairment was recognized by the Company for the cash generating units

There is no reasonably possible change in the assumptions outlined above which would give rise to an impairment within the cash generating units.

Notes to the financial statements

at 31 December 2019

9. Tangible assets

	<i>Land and buildings</i>	<i>Right of use Land and buildings</i>	<i>Right of use Forklift trucks</i>	<i>Right of use Passenger cars</i>	<i>Plant and machinery</i>	<i>Fixtures, fittings and motor vehicles</i>	<i>Assets in course of construction</i>	<i>Total</i>
	£	£	£	£	£	£	£	£
Cost:								
At 1 January 2019	4,036,618	-	-	-	15,018,082	197,685	1,989,555	21,241,940
		3,172,537	61,738	304,955				
Transition IFRS16	-	-	-	-	-	-	-	3,539,230
Additions	49,825	-	175,129	41,872	403,162	-	793,104	1,463,092
		-	(14,705)	(63,651)				
Disposals	-	-	-	-	(428,331)	-	(327,333)	(834,020)
Transfers	415,296	-	-	-	772,741	-	(1,188,037)	-
At 31 December 2019	4,501,739	3,172,537	222,162	283,176	15,765,654	197,685	1,267,289	25,410,242
Accumulated depreciation:								
At 1 January 2019	820,917	-	-	-	8,354,151	136,255	-	9,311,323
Charge for the year	340,835	440,174	58,482	184,187	981,075	25,162	-	2,029,915
		-	(14,705)	(44,185)				
On disposals	-	-	-	-	(296,898)	-	-	(355,788)
Transfers	-	-	-	-	-	-	-	-
At 31 December 2019	1,161,752	440,174	43,777	140,002	9,038,328	161,417	-	10,985,450
Net book value:								
At 31 December 2018	3,215,701	-	-	-	6,663,931	61,430	1,989,555	11,930,617
Net book value:								
At 31 December 2019	3,339,987	2,732,363	178,385	143,174	6,727,326	36,268	1,267,289	14,424,792

Land and buildings comprise freehold land of £222,000, freehold property of £2,004,132 and short leasehold property of £1,113,855.

Notes to the financial statements

at 31 December 2019

10. Investments

	2019	2018
	£	£
Cost:		
At 31 December	2	21,833,579
Additions	-	26,042,073
Impairments	-	(47,875,650)
At 31 December	2	2

Details of the investments in which the Company holds 20% or more of the nominal value of the class of share capital at 31 December 2019, are as follows, the entities are companies in the UK:

<i>Subsidiary undertakings</i>	<i>Holding</i>	<i>Proportion of voting rights and shares held</i>	<i>Nature of Business</i>
Freudenberg Technical Products Pension Trust Co Limited	Ordinary shares	100%	Pension scheme trustee

11. Stocks

	2019	2018
	£	£
Raw materials and consumables	1,455,142	1,255,204
Work in progress	687,799	843,632
Finished goods and goods for resale	7,259,651	8,616,385
	9,402,592	10,715,221

12. Debtors

	2019	2018
	£	£
Trade debtors	11,021,377	13,166,954
Amounts owed by group undertakings:		
Parent and fellow subsidiary undertakings	775,645	1,121,041
Prepayments and accrued income	626,242	691,112
	12,423,264	14,979,107

Notes to the financial statements

at 31 December 2019

13(a). Creditors: amounts falling due within one year

	2019 £	2018 £
Trade creditors	1,506,705	2,684,672
Amounts owed to group undertakings:		
Parent and fellow subsidiary undertakings	10,314,798	13,579,683
Other taxation and social security costs	401,864	601,976
Lease liabilities	649,474	-
Accruals and deferred income	2,645,766	2,990,124
Corporation tax payable	62,114	100,550
	<u>15,580,721</u>	<u>19,957,005</u>

Trade creditors are non-interest bearing and are normally settled on 60 day terms.

13(b) Creditors: amounts falling due after one year

	2019 £	2018 £
Lease liabilities	2,416,302	-
	<u>2,416,302</u>	<u>-</u>

13(c). Provisions for liabilities and charges

	Dilapidations £	Restructuring £	Total £
At 31 December 2018	565,277	458,000	1,023,277
Utilised	(230,000)	(317,619)	(547,619)
Charged in the year	12,723	29,619	42,342
At 31 December 2019	<u>348,000</u>	<u>170,000</u>	<u>518,000</u>

The dilapidation provision represents the estimated costs to be incurred on current leased property to re-instate to original conditions. The liability is expected to be settled after the end of the lease terms in more than five years. The restructuring liabilities relates to employee liabilities expected to be settled within one year.

14. Deferred tax

	£
At 1 January 2019	2,302,655
Charged to the profit and loss account (Note 7 (a))	(716,937)
Credited to other comprehensive income (Note 7(b))	(242,630)
At 31 December 2019	<u>1,343,088</u>

Notes to the financial statements

at 31 December 2019

	2019 £	2018 £
Difference between accumulated depreciation and amortisation and capital allowances	(109,980)	121,557
Temporary differences	801,458	1,237,178
Defined benefit pension plan	651,610	943,920
	<u>1,343,088</u>	<u>2,302,655</u>

15. Issued share capital

	No.	£
<i>Allotted, called up and fully paid</i>		
Ordinary shares of £1 each	<u>27,223</u>	<u>27,223</u>

On incorporation, 22,900 shares, with a nominal value of £22,900, were issued and fully paid for consideration of £22,900,000 settled in cash.

In 2018, 4,323 shares, with a nominal value of £4,323, were issued in exchange for Auto Suppliers Limited shares.

16. Reserves

Share premium

The share premium account relates to the amount above nominal value received for shares issued.

Profit and loss account

This reserve represents the cumulative comprehensive income recognised in the company, less any dividends paid.

17. Commitments

Leases – company as lessee

The carrying amount of the right-of-use assets recognised and the movements during the period are shown in note 9.

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	2019
As at 1 January	3,539,230
Additions	138,646
Accretion of interest	
Payments	738,313
As at 31 December	3,065,776
Current	649,474
Non-Current	2,416,302

Notes to the financial statements

at 31 December 2019

The following are the amounts recognised in the income statement:

	2019
Depreciation expenses of right-of-use assets	682,844
Interest expense on lease liabilities	69,518
Expense relating to low-value leases (included in cost of sales)	19,152
Variable lease payments	
Total amount recognised in the income statement	771,514

Capital Commitments

Future contractually committed capital spend as at 31 December 2019 totalled £287,765

18. Pension and other post-retirement benefits

The company contributes to the Freudenberg Pension Scheme ("the Scheme"), a funded defined benefit pension scheme in the UK. The Scheme is administered within a trust which is legally separate from the Company. Trustee Directors are appointed by both the Company and the Scheme's membership and act in the interest of the Scheme and all relevant stakeholders, including the members and the Company. The Trustee is also responsible for the investment of the Scheme's assets.

The Scheme closed to future benefit accrual on 31 March 2012. On closure, the link to pensionable salary for active members ceased and all current active members became deferred members of the Scheme. The Scheme provides pensions and lump sums to members on retirement and to their dependants on death.

Since the closure of the Scheme to future accrual on 31 March 2012, no employee contributions have been paid. The Company meets the ongoing funding costs of the Scheme, as determined by regular actuarial valuations. The Trustee is required to use prudent assumptions to value the liabilities and costs of the Scheme whereas the accounting assumptions must be best estimates.

The Scheme poses a number of risks to the Company, for example longevity risk, investment risk, interest rate risk and inflation risk. The Trustee is aware of these risks and uses various techniques to control them. For example in 2017, the Trustee, with the support of the Company, took out a buy-out policy to insure the Scheme's pensioner liabilities, thereby removing most of the risks associated with a substantial proportion of the Scheme's liabilities. The Trustee also has a number of internal control policies including a risk register, which are in place to manage and monitor the various risks they face.

The Scheme is subject to regular actuarial valuations, which are usually carried out every three years. The next actuarial valuation is due to be carried out with an effective date of 5 April 2020. These actuarial valuations are carried out in accordance with the requirements of the Pensions Act 2004 and so include deliberate margins for prudence. This contrasts with these accounting disclosures, which are determined using best estimate assumptions.

A formal actuarial valuation was carried out as at 5 April 2017. The results of that valuation have been projected to 31 December 2019 by a qualified independent actuary. The figures in the following disclosure were measured using the Projected Unit Method.

Notes to the financial statements

at 31 December 2019

18. Pension and other post-retirement benefits (continued)

The assets and liabilities of the scheme at 31 December are:

	<i>Percentage of plan assets 2019 %</i>	<i>Fair value at 31 December 2019 £000</i>	<i>Percentage of plan assets 2018 %</i>	<i>Fair value at 31 December 2018 £000</i>
Equities	59.8%	42,267	56.6%	36,794
Bonds	38.5%	27,220	43.0%	27,966
Other	1.7%	1,157	0.4%	291
Total market value of assets		70,644		65,051
Present value of scheme liabilities		(66,811)		(60,083)
Surplus in the scheme		3,833		4,968

'Other' above, is largely cash on hand.

The pension scheme has not invested in any of the company's own financial instruments nor in properties or other assets used by the company.

There is one contributor to the pension scheme, Freudenberg Sealing Technologies Limited. The share of the surplus attributable to Freudenberg Sealing Technologies Limited and included on the company's balance sheet is £3,833,000.

The surplus at 31 December 2019, has been recognised as the company would be entitled to a refund if the scheme was in surplus when all benefits had been paid.

The amount recognised in comprehensive income are:

	<i>2019 £000</i>	<i>2018 £000</i>
Net interest income(Note 6)	(142)	(174)
Past service costs	-	299
	(142)	125

Remeasurements of the net liability:

Return on scheme assets	9,085	(4,502)
Loss/(gain) arising from change in financial assumptions	(10,101)	2,795
Gain arising from changes in demographic assumptions	(3)	481
Experience loss	(258)	(123)
Charge recorded in other comprehensive income	(1,277)	(1,349)
Freudenberg Sealing Technologies Limited share	(1,277)	(1,349)

Notes to the financial statements

at 31 December 2019

18. Pension and other post-retirement benefits (continued)

The major assumptions and calculation dates for these valuations were:

	2019	2018
	%	%
Rate of increases in salaries	n/a	n/a
Rate of increase in pensions in payment	2.75	3.05
Discount rate	1.95	2.85
Inflation assumption - RPI	2.80	3.15
Inflation assumption - CPI	1.90	2.15
Increases for pensions in payment:		
Pension in excess of GMP - RPI to a max of 5%	2.75	3.05
Pension in excess of GMP - RPI to a max of 5% and min of 3%	3.45	3.60
Pension in excess of GMP - Fixed 5%	5.00	5.00
GMP accrued after 5 April 1988	1.75	1.90
Proportion of employees opting for early retirement	Nil	Nil
Proportion of employees commuting pension for cash	25%	25%

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are that for a member currently aged 65 will live for a further 21.5 years if they are male and for a further 22.5 years if they are female. For a member who retires in 2039 at age 65, the assumptions are that they will live on average for a further 23.2 years after retirement if they are a male and a further 24.3 years if they are female. The overall scheme duration has been assumed at 20 years.

In agreeing the discount rate used in the calculation of the present value of the pension scheme liabilities, the directors acknowledge the high degree of judgement involved, and the sensitivity of the calculations to a change in assumptions. The impact of a 0.5% change in the discount rate has an estimated impact on the defined benefit obligation of £7,400,000. If the inflation assumption was 0.5% higher, the scheme liabilities would increase by £6,100,000. If life expectancies were to increase by 1 year, the scheme liabilities would increase by £2,800,000. The directors also acknowledge their responsibilities for ensuring that actuarial assumptions are suitably updated to reflect changing economic conditions, and they confirm that the 31 December 2019 assumptions have been carefully reviewed with the actuary.

Changes in the present value of the defined benefit obligations are analysed as follows:

	2019	2018
	£000	£000
As at 1 January	60,083	66,665
Interest cost	1,637	1,726
Benefits paid	(5,271)	(5,454)
Actuarial loss/(gain) arising from changes in financial assumptions	10,101	(2,795)
Actuarial loss/(gain) from change in demographic assumptions	3	(481)
Other experience items	258	123
Past service costs	-	299
As at 31 December	66,811	60,083

Notes to the financial statements

at 31 December 2019

18. Pension and other post-retirement benefits (continued)

Changes in the fair value of plan assets are analysed as follows:

	2019 £000	2018 £000
As at 1 January	65,051	73,107
Interest income	1,779	1,900
Total contributions	-	-
Benefits paid	(5,271)	(5,454)
Return on assets	9,085	(4,502)
Liabilities extinguished on settlements	-	-
As at 31 December	70,644	65,051

The actual return on assets in the year was £10,864,000. No employer contributions are expected for the year ending 31 December 2020.

The company also contributes to a defined contribution pension scheme. Contributions in the period totalled £1,057,757, there were no contributions outstanding at the balance sheet date.

19. Related party transactions

Related parties of the Company with whom there were transactions during the period include subsidiary companies and other related parties of Freudenberg & Co Kommanditgesellschaft, the ultimate parent undertaking Freudenberg Sealing Technologies Limited. The aggregate values of transactions with related parties during the period were as follows:

	2019 £	2018 £
Sales	7,084,486	6,237,524
Purchases	27,748,506	26,738,495
Balances as at 31 December with related parties were as follows:		
Amounts included in debtors:		
– Group undertakings	775,645	1,121,041
Amounts included in creditors due in less than one year:		
– Group undertakings	10,314,798	13,579,683

20. Ultimate parent undertaking and controlling party

In the opinion of the directors, Freudenberg & Co Kommanditgesellschaft of Hühnerweg 2-4, 69469 Weinheim, Germany is the ultimate parent undertaking and the Board of partners of Freudenberg & Co Kommanditgesellschaft is the ultimate controlling party. Copies of its financial statements, which is the largest group in which the company's results are consolidated, are available from that address. The smallest group in which the company's results are consolidated at Freudenberg SE.

Notes to the financial statements

at 31 December 2019

21. Financial instruments

	2019	2018
	£	£
<i>Financial assets measured at cost:</i>		
Trade and other debtors	11,021,377	13,166,954
Amounts due from group undertakings	775,645	1,121,041
Cash	23,423	135,927
<i>Financial liabilities measured at cost:</i>		
Trade and other creditors	4,152,471	5,674,796
Amounts due to group undertakings	10,314,798	13,579,683

22. Post balance sheet events

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.

Freudenberg Sealing Technologies Limited continues to operate in countries that have been affected by the pandemic. Operations have been impacted by actions and initiatives which have been implemented by the Company in relating to its own working arrangements and operations and has been additionally impacted by those restrictions occurring at operations of end customers which are located worldwide.

Those measures and actions implemented by the company include social distancing, home working and where appropriate furloughing staff. During the COVID-19 pandemic, the company has adhered and complied with all relevant UK Government working arrangement guidelines and are aligned with the wider associated Freudenberg Group issued guidelines.

The impact of COVID-19 on the company's operations is discussed within the principal risks and uncertainties on pages 2 and 3. Subsequent to the balance sheet date, the company has monitored trade performance and relationships with external agencies such as customers and suppliers. There has been no significant disruption in the supply of goods and no issues with receipts from customers.

COVID-19 is considered to be a non-adjusting post balance sheet event for the company, as it does not provide more information about circumstances that existed at the year-end. As such, there have been no adjustments to the key estimates and judgements that impact the balance sheet as at 31 December 2019. The impact of COVID-19 could result in lower than anticipated revenues and potential impairment of assets, including tangible and intangible fixed assets and stocks. In addition, the company operates a defined benefit scheme, which could be impacted by overall market decline, as a result of the COVID-19 outbreak, should this continue for a longer period.

The Directors are actively monitoring the evolving situation regarding the coronavirus, assessing further possible implications for Freudenberg Sealing Technologies Limited, and will take further action to mitigate any adverse consequences if necessary. It is not practicable as at the date of approval of these financial statements to reliably make a quantified estimate of its potential impact on the Company, although it is noted the Directors are confident that the Group has sufficient resources to cover any cash flow requirements which may arise, as discussed in the strategic report.

As part of Budget 2020, the government announced the reduction in the corporate income tax rate to 17% that was previously enacted to be effective from 1 April 2020 would be cancelled. The cancellation has been made effective by way of Budget Resolution. Consequently, the corporation income tax rate remains at 19%. Further details on the effect of the corporate income tax rate reduction cancellation on the deferred tax balance can be found in note 7.