Freudenberg Sealing Technologies Limited

Report and Financial Statements

For the year ended 31 December 2020

Registered No. 10346611

Directors
P R C Johnson
L Neuwinger-Heimes

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Strategic report

Review of the business

2020 performance

Turnover was £58,576,224 which was 17% lower than 2019, driven by reductions in orders from key customers who temporarily closed down due to the Covid crisis. The Company recorded a loss after tax of £1,077,600 compared to a profit of £1,122,220 in 2019. This loss was driven by the impact of the Covid 19 pandemic with lower sales.

Company position at 31 December 2020

Net assets at 31 December 2020 was £34,540,992, a reduction of £1,776,630 (4.9%) compared to 31 December 2019. Major impacts came from stock with a reduction of £2,152,691 and creditor's reduction of £1,789,315. The stock reduction resulted from strict working capital management during the Covid crisis, the creditors was driven by the reduction of the intragroup cash pool balance owed to the group cash pool leader, again by strict cash flow management. The balance on the Freudenberg pension fund has changed from a surplus of £3,833,000 at 31 December 2019 to a surplus of £2,886,000 at 31 December 2020, a reduction of £947,000. All other balance sheet positions remained stable compared to prior year.

Key performance indicators

- Profitability – net loss after tax margin -1.8%
- Growth – turnover reduced by 17% largely due to impact of the Covid crisis.

The performance indicators reflect the impact of the Covid 19 pandemic with lower sales and profitability.

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).
- Energy price rises
- Threat from competitors in low cost countries gaining market share.
- Global economic uncertainty (Brexit, tariffs, Covid).
- Exchange rate fluctuations.
- Volume fluctuations due to unstable economic conditions.

These risks impact the company each month with sales volumes fluctuations, material price changes, FX gains and losses and tariffs and duties. Robust measures were in place to minimise the impact of the above risks during the year with constant monitoring and resulting actions, such as selling price increases and supplier sourcing strategies.

Impact of COVID-19 and going concern

The business has been impacted by Covid-19 throughout the majority of the 2020 Financial year and subsequent to it. 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 severely affected many

Strategic report

economies as businesses were temporarily forced to close or limit their operations. The business has continued to trade but demand has reduced and where appropriate staff were furloughed. The company's main customers, being automotive tier and general industry based, were temporarily closed for some weeks but now have reopened and demands have recovered strongly. All of the workforce have returned from furlough. The directors have considered this further within the Going Concern section of the directors report on page 6.

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 2020.

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 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 2020 are shown below:-

Strategic report

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 2020, this includes plans 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 2020 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.

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.

Strategic report

- 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 2020 during the Covid crisis we continued to promptly pay our suppliers to ensure no liquidly issues, especially important for our smaller local suppliers.

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 2020, we have supported the following events:
  - New York Primary School - Working on submission of e^3 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 behalf of the board by:

P Johnson

Director

30 September 2021

Directors' report

The directors present their report and the audited financial statements as at and for the year ended 31 December 2020. The Strategic Report, as detailed on page 2, covers the areas of Review of the Business, risks and key performance indicators.

Principal activities

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

Results and dividends

The loss for the year after tax amounted to £1,077,600 (2019 profit: £1,122,220). The directors do not recommend a distribution of profits.

Future prospects and going concern

At the time of issuing the statutory financial statements, there remain 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 initially reduced and where appropriate, staff were furloughed. The company's main customers, being automotive tier and general industry based, were temporarily closed for some weeks but now have reopened and demands are recovering strongly. The recovery in the sales orders started from July 2020 and since the year end have now recovered back to pre-Covid levels. All employees have returned from furlough and in some areas of the business additional headcount is in place to manage the quicker than expected recovery.

The directors note that the initial drop in demand coupled with on-going uncertainty associated with any future impact of Covid-19 increases the risk that the Company may not be able to achieve its financial goals and future forecasts. 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. In arriving at the conclusion that the Going Concern assumption is appropriate, various future financial scenarios for 2021 and 2022 have been modelled and stress-tested. The directors have also considered the impact of Brexit. They have considered the likely impact of any additional costs such as duties or increased product costs and would look to reflect these in the prices in the market as necessary. These scenarios still concluded that future forecast positive cash inflows will be generated for the financial years 2021 and 2022.

However, given the uncertainty that remains in relation to Covid-19, the Directors have obtained a letter of support from Freudenberg SE, the major shareholder, confirming that they will provide support if necessary for a period no less than 12 months from the date of signing the 2020 financial statements. 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.

Having taken all of the above into account, the Company's statutory financial statements for the year 2020 have been prepared on a going concern basis, which the directors believe to be appropriate.

Future developments

The directors aim to maintain the management policies which have resulted in the business's growth in recent years. The impact of the COVID crisis in 2020 has led to a reduction in sales of 17%, 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 of the company who were in office during the year and up to the date of signing the financial statements were:

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.

COVID-19

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.

Post balance sheet events

On 3 March 2021, the Chancellor of the Exchequer announced that the main rate of corporation tax in the United Kingdom will rise to 25% with effect from 1 April 2023 for companies earning annual taxable profits in excess of £250,000. Companies earning annual taxable profits of £50,000 or less will continue to pay corporation tax at 19% with a marginal rate adjustment for companies earning annual taxable profits between the two levels. These changes had not been substantively enacted at the balance sheet date and therefore no adjustment has been made to deferred taxation balances to account for this change. Further details can be found in note 7.

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 auditors are 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 auditors are 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 LLP were appointed as auditors of the Company and Ernst & Young LLP resigned as auditors.

By order of the directors

P MacDougall

Secretary

30 September 2021

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 year. 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.

By order of the directors .

P MacDougall

Secretary

30 September 2021

Report on the audit of the financial statements

Opinion

In our opinion, Freudenberg Sealing Technologies Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Report and Financial Statements (the "Annual Report"), which comprise: Balance Sheet as at 31 December 2020; Income Statement, Statement of Comprehensive Income and Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

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.

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.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

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

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

Independent auditors' report

to the members of Freudenberg Sealing Technologies Limited

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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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.

Auditors' 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 auditors' 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.

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.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to UK tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to inappropriate journal entries to revenue. Audit procedures performed by the engagement team included:

- Enquiries with management including consideration of known or suspected instances of noncompliance with laws and regulations and fraud;
- Reviewing relevant meeting minutes, including those of the Board; and
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations and entries posted by unexpected users, where any such journal entries were identified.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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 auditors' report.

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Stuart Couch

Stuart Couch (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cardiff
30 September 2021

Income statement

for the year ended 31 December 2020

	Note	2020 £	2019 £
Turnover	2	58,576,224	70,294,775
Cost of sales		(47,216,209)	(56,263,249)
Gross profit		11,360,015	14,031,526
Administrative expenses		(12,040,301)	(13,084,095)
Operating (loss)/profit	3	(680,286)	947,431
(Loss)/profit on disposal of tangible fixed assets		(214,482)	33,110
Finance cost and similar expenses	5	(146,155)	(305,666)
(Loss)/profit before taxation		(1,040,923)	674,875
Tax on (loss)/profit	7	(36,677)	447,345
(Loss)/profit for the financial year		(1,077,600)	1,122,220

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

Statement of comprehensive income

for the year ended 31 December 2020

	Note	2020 £	2019 £
(Loss)/profit for the financial year		(1,077,600)	1,122,220
Other comprehensive loss:			
Items that cannot be reclassified to profit or loss:			
Remeasurement losses on defined benefit pension plan	18	(863,000)	(1,277,000)
Deferred tax on:			
Remeasurement losses for the year	7	163,970	242,630
Items that can be reclassified to profit or loss:			
Deferred tax arising on pooling of interests		-	-
Other comprehensive loss for the year		(699,030)	(1,034,370)
Total comprehensive (loss)/income for the year		(1,776,630)	87,850

Balance sheet

at 31 December 2020

	Notes	2020 £	2019 £
Fixed assets			
Intangible assets	8	15,353,485	16,068,660
Tangible assets	9	14,889,609	14,424,792
Investments	10	2	2
		30,243,096	30,493,454
Current assets			
Stocks	11	7,249,901	9,402,592
Debtors	12	12,116,447	12,423,264
Cash at bank and in hand		440,110	23,423
		19,806,458	21,849,279
Creditors: amounts falling due within one year	13	(14,081,820)	(15,580,721)
Net current assets		5,724,638	6,268,558
Total assets less current liabilities		35,967,734	36,762,012
Creditors: amounts falling due after more than one year	13	(2,125,888)	(2,416,302)
Provisions for liabilities and charges	13, 14	(2,186,854)	(1,861,088)
Pension surplus	18	2,886,000	3,833,000
Net assets		34,540,992	36,317,622
Capital and reserves			
Called up share capital	15	27,223	27,223
Share premium account	16	27,195,777	27,195,777
Profit and loss account	16	7,317,992	9,094,622
Total shareholders' funds		34,540,992	36,317,622

The financial statements on pages 13 to 37 were approved by the Board of Directors on 30 September 2021 and signed on its behalf by

P Johnson
Director

Statement of changes in equity

for the year ended 31 December 2020

	Share capital £	Profit and loss account £	Total £
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
At 1 January 2020	27,223,000	9,094,622	36,317,622
Loss for the financial year	-	(1,077,600)	(1,077,600)
Other comprehensive loss for the year	-	(699,030)	(699,030)
Total comprehensive loss for the year	-	(1,776,630)	(1,776,630)
At 31 December 2020	27,223,000	7,317,992	34,540,992

Notes to the financial statements

at 31 December 2020

1. Accounting policies

Statement of Compliance

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

The financial statements of Freudenberg Sealing Technologies Limited (the "company") for the year ended 31 December 2020 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. These financial statements are separate financial statements of the company.

The Company has taken advantage of the exemption under s400 of the Companies Act 2006 not to prepare consolidated 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, Höhnerweg 2-4, Weinheim, Germany, 69469.

Going Concern

At the time of issuing the statutory financial statements, there remain 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 initially reduced and where appropriate, staff were furloughed. The company's main customers, being automotive tier and general industry based, were temporarily closed for some weeks but now have reopened and demands are recovering strongly. The recovery in the sales orders started from July 2020 and since the year end have now recovered back to pre-Covid levels. All employees have returned from furlough and in some areas of the business additional headcount is in place to manage the quicker than expected recovery.

The directors note that the initial drop in demand coupled with on-going uncertainty associated with any future impact of Covid-19 increases the risk that the Company may not be able to achieve its financial goals and future forecasts. 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. In arriving at the conclusion that the Going Concern assumption is appropriate, various future financial scenarios have been modelled and stress-tested. The directors have also considered the impact of Brexit. They have considered the likely impact of any additional costs such as duties or increased product costs and would look to reflect these in the prices in the market as necessary. These scenarios still concluded that future forecast positive cash inflows will be generated for the financial years 2021 and 2022.

However, given the uncertainty that remains in relation to Covid-19, the Directors have obtained a letter of support from Freudenberg SE, the major shareholder, confirming that they will provide support if necessary for a period no less than 12 months from the date of signing the 2020 financial statements. 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.

Notes to the financial statements

at 31 December 2020

Having taken all of the above into account, the Company's statutory financial statements for the year 2020 have been prepared on a going concern basis, which the directors believe to be appropriate.

Basis of preparation

The financial statements have been prepared on a going concern basis under historical cost convention. Accounting policies have been applied consistently, other than where new policies have been adopted.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2020. The Company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of IFRS 7, *Financial Instruments: Disclosures*;
- the requirements of paragraphs 91 to 99 of IFRS 13, *Fair Value Measurement*;
- the requirement in paragraph 38 of IAS 1, *Presentation of Financial Statements*, to present comparative information in respect of:
  - paragraph 79(a)(iv) of IAS 1;
  - paragraph 73(e) of IAS 16, *Property, Plant and Equipment*; and
  - paragraph 118(e) of IAS 38 – Intangible Assets.
- the requirements of paragraphs 10(d), 10)(f), 16, 38Ato 38D, 40A to 40D and 111 and 134 to 136 of IAS 1;
- the requirements of IAS 7, *Statement of Cash Flows*;
- the requirements of paragraphs 30 and 31 of IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*;
- the requirements of paragraphs 17 and 18A of IAS 24, *Related Party Disclosures*;
- 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, *Impairments of Assets*;
- 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, *Revenue from Contracts with Customers*, 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

No changes in accounting policies occurred in comparison to the prior year.

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

Notes to the financial statements
at 31 December 2020

1. Accounting policies (continued)

amounts reported for revenues and expenses during the year. 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 term nature of the plan, such estimates are subject to significant uncertainty. Further details are given in Note 18.

- Goodwill and PPA 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 20 years
Leasehold property	-	over the life of the lease
Plant and machinery	-	5-15 years
Fixtures and fittings	-	5-15 years
Motor vehicles	-	6 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 year of derecognition.

Notes to the financial statements

at 31 December 2020

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.

Goodwill acquired in a business combination has been recognised. The acquisition costs of the individual consolidated companies are set off against the pro-rata share in the fair value of the equity of the companies concerned as of the date of acquisition according to the acquisition method. Identifiable acquired assets and liabilities are also included in the statement of financial position at their fair values as of the acquisition date. Any remaining differences are shown as goodwill. 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 in a subsidiary is 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.

Notes to the financial statements

at 31 December 2020

1. Accounting policies (continued)

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 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 quantitatively. 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

Notes to the financial statements

at 31 December 2020

1. Accounting policies (continued)

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 company 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).

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 and development 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 enforcement 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 year 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

Notes to the financial statements

at 31 December 2020

1. Accounting policies (continued)

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 year (to determine current service cost) and to the current and prior years (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 year in which the settlement or curtailment occurs.

Net finance cost 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 year, taking account of any changes in the net defined benefit liability during the year as a result of contribution and benefit payments. The net finance cost 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 year in which they occur.

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:

	Year ended 31 December 2020	*Year ended 31 December 2019*
	£	£
European Community	25,589,431	56,148,279
Rest of Europe	22,212,046	2,191,572
North America	8,203,495	9,331,565
Latin America	588,062	390,576
Japan and the Far East	1,857,885	2,052,042
Australia, Oceania	51,331	52,263
Africa	73,974	128,478
	58,576,224	70,294,775

Notes to the financial statements

at 31 December 2020

3. Operating profit

This is stated after charging/(crediting):

	Year ended 31 December 2020	*Year ended 31 December 2019*
	£	*£*
Depreciation charge on tangible fixed assets – owned and leased	2,097,072	2,029,915
Amortisation charge on intangible fixed assets	715,175	715,175
Research and development expenditure	2,949,874	3,049,573
Auditors' remuneration - audit of these financial statements	50,000	66,201
Exchange (gain)/loss	(278,425)	405,574
Increase in dilapidation provision (Note 13(c))	96,000	12,723
Cost of stocks recognised as expense (included in cost of sales)	39,212,853	47,197,921
Including– write-down of stocks net realisable value	119,394	133,193
Pension - past service costs (Note 18)	157,000	-
Loss/(gain) on disposal of fixed assets	214,482	(33,110)

4a. Staff costs

	Year ended 31 December 2020	*Year ended 31 December 2019*
	£	*£*
Wages and salaries	12,096,772	13,020,904
Social security costs	1,349,668	1,488,532
Other pension costs	964,850	1,057,757
	14,411,290	15,567,193

Furlough scheme income of £861,229 (2019: £Nil) is included in the staff costs.

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

	2020	*2019*
	No.	*No.*
Sales and distribution	54	61
Administration	53	53
Production	223	223
	330	337

Notes to the financial statements
at 31 December 2020

4b. Directors' remuneration

	Year ended 31 December 2020 £	Year ended 31 December 2019 £
Directors' emoluments	263,829	246,412
Company contributions paid to defined contribution pension schemes	-	-
	263,829	246,412

The above also represents 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 expenses

	Year ended 31 December 2020 £	Year ended 31 December 2019 £
Interest expense – lease liabilities IFRS 16	59,147	69,518
Interest expense - group undertakings	87,008	236,148
	146,155	305,666

6. Other finance income

	Year ended 31 December 2020 £	Year ended 31 December 2019 £
Interest cost on pension scheme liabilities	(1,284,000)	(1,637,000)
Interest income on pension scheme assets	1,357,000	1,779,000
Net finance income (Note 18)	73,000	142,000

Notes to the financial statements

at 31 December 2020

7. Tax on (loss)/profit

a) Tax charge in income statement

	Year ended 31 December 2020	*Year ended 31 December 2019*
	£	*£*
Current income tax		
UK Corporation tax charge	-	(82,919)
Adjustment in respect of prior years	82,919	(186,673)
Total Current Tax	82,919	(269,592)
Deferred tax		
Origination and reversal of timing differences	(25,872)	99,167
Adjustment in respect of prior years	(93,724)	617,770
Total Deferred Tax	(119,596)	716,937
Tax on (loss)/profit (note 7(c))	(36,677)	447,345

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

	Year ended 31 December 2020	*Year ended 31 December 2019*
	£	*£*
Deferred tax		
Remeasurement gains on defined benefit pension plan on:		
Remeasurement losses for the year	(163,970)	(242,630)
Deferred tax on pooling of interests	-	-
Total deferred tax charged to other comprehensive income	(163,970)	(242,630)

Notes to the financial statements

at 31 December 2020

7. Tax on (loss)/profit (continued)

c) Factors affecting current tax charge

The tax assessed on the (loss)/profit for the year is different to the standard rate of corporation tax in the UK of 19% (2019: 19%) The differences are reconciled below:

	Year ended 31 December 2020 £	*Year ended 31 December 2019* £
(Loss)/profit before taxation	(1,040,923)	674,875
(Loss)/profit multiplied by standard rate of corporation tax in the UK of 19% (2019:19%)	(197,775)	128,226
Adjustments in respect to prior years	10,805	(431,097)
Non-deductible expenses	205,487	99,679
Non-taxable income	(14,613)	-
Rate differences	32,773	(244,152)
Total tax charge/(credit) to the income statement	36,677	(447,345)

d) Factors that may affect future tax charges:

On 3 March 2021, the Chancellor of the Exchequer announced that the main rate of corporation tax in the United Kingdom will rise to 25% with effect from 1 April 2023 for companies earning annual taxable profits in excess of £250,000. Companies earning annual taxable profits of £50,000 or less will continue to pay corporation tax at 19% with a marginal rate adjustment for companies earning annual taxable profits between the two levels. These changes had not been substantively enacted at the balance sheet date and therefore no adjustment has been made to deferred taxation balances to account for this change. If the revised tax rate of 25% were to be applied, this would increase the deferred tax liability to £1,708,834.

Notes to the financial statements

at 31 December 2020

8. Intangible assets

	Knowhow £	Licences £	Goodwill £	Customer lists £	Total £
Cost:					
At 31 December 2019	2,163,013	162,682	10,022,566	4,684,701	17,032,962
Additions	-	-	-	-	-
Disposals	-	(162,682)	-	-	(162,682)
At 31 December 2020	2,163,013	-	10,022,566	4,684,701	16,870,280
Accumulated amortisation:					
At 31 December 2019	184,666	162,682	-	616,954	964,302
Charge for the year	158,268	-	-	556,907	715,175
On disposals	-	(162,682)	-	-	(162,682)
At 31 December 2020	342,934	-	-	1,173,861	1,516,795
Net book value:					
At 31 December 2019	1,978,347	-	10,022,566	4,067,747	16,068,660
Net book value:					
At 31 December 2020	1,820,079	-	10,022,566	3,510,840	15,353,485

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 2020. Management treated each business from the hive-ups as separate cash generating units (Metflex and Auto Suppliers businesses). The management's approach to determining the values assigned to each key assumption reflect past experience and are consistent with external sources of information. 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 3% to 10%, post-tax WACC of 7.6% and net working capital as a percentage of sales. Cash flows from 5 years were discounted into perpetuity. 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 2020

9. Tangible assets

	Land and buildings	*Right of use Land and buildings*	*Right of use Forklift trucks*	*Right of use Passenger cars*	*Plant and machinery*	*Fixtures, fittings and motor vehicles*	*Assets in course of construction*	*Total*
	£	*£*	*£*	*£*	*£*	*£*	*£*	*£*
Cost:								
At 1 January 2020	4,501,739	3,172,537	222,162	283,176	15,765,654	197,685	1,267,289	25,410,242
Additions	-	-	207	461,134	1,358,773	-	1,051,370	2,871,484
Disposals	-	-	-	(235,490)	(1,711,049)	-	-	(1,946,539)
Transfers	-	-	-	-	814,136	13,369	(827,505)	-
At 31 December 2020	4,501,739	3,172,537	222,369	508,820	16,227,514	211,054	1,491,154	26,335,187
Accumulated depreciation:								
At 1 January 2020	1,161,752	440,174	43,777	140,002	9,038,328	161,417	-	10,985,450
Charge for the year	364,338	440,174	68,506	186,385	1,017,028	20,641	-	2,097,072
On disposals	-	-	-	(217,222)	(1,419,722)	-	-	(1,636,944)
Transfers	-	-	-	-	-	-	-	-
At 31 December 2020	1,526,090	880,348	112,283	109,165	8,635,634	182,058	-	11,445,577
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
Net book value:								
At 31 December 2020	2,975,649	2,292,189	110,086	399,655	7,591,880	28,996	1,491,154	14,889,609

Land and buildings comprise freehold land of £222,000, freehold property of £1,872,228 and leasehold improvements of £881,421.

Notes to the financial statements

at 31 December 2020

10. Investments

	2020	2019
	£	£
Cost:		
At 1 January	2	2
Additions	-	-
Impairments	-	-
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 2020, are as follows, the entities are companies in the UK:

Subsidiary undertakings	*Holding*	*Proportion of voting rights and shares held*	*Nature of Business*
The Freudenberg Technical Products Pension Trust Company Limited c/o P Macdougall Freudenberg Sealing Technologies Limited Unit A, Merlin Way New York Industrial Estate North Shields Tyne & Wear NE27 0QG	Ordinary shares	100%	Pension scheme trustee

11. Stocks

	2020	2019
	£	£
Raw materials and consumables	1,467,057	1,455,142
Work in progress	753,300	687,799
Finished goods and goods for resale	5,029,544	7,259,651
	7,249,901	9,402,592

12. Debtors

	2020	2019
	£	£
Trade debtors	10,490,559	11,021,377
Amounts owed by group undertakings:		
Parent and fellow subsidiary undertakings	866,336	775,645
Prepayments and accrued income	759,552	626,242
	12,116,447	12,423,264

Trade debtors are non-interest bearing and are normally settled on 60 day terms. Amounts owed by parent and fellow subsidiary undertakings are non-interest bearing and are normally settled on 30 day terms.

Notes to the financial statements

at 31 December 2020

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

	2020	2019
	£	£
Trade creditors	2,526,338	1,506,705
Amounts owed to group undertakings:		
Parent and fellow subsidiary undertakings	5,858,115	10,314,798
Other taxation and social security costs	805,844	401,864
Lease liabilities	690,019	649,474
Accruals and deferred income	4,201,504	2,645,766
Corporation tax payable	-	62,114
	14,081,820	15,580,721

Trade creditors are non-interest bearing and are normally settled on 60 day terms. Amounts owed to parent and fellow subsidiary undertakings are non-interest bearing and are normally settled on 30 day terms.

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

	2020	2019
	£	£
Lease liabilities	2,125,888	2,416,302
	2,125,888	2,416,302

13(c). Provisions for liabilities and charges

	Dilapidations	Restructuring	Total
	£	£	£
At 31 December 2019	348,000	170,000	518,000
Utilised	-	(164,313)	(164,313)
Charged in the year	96,000	438,453	534,453
At 31 December 2020	444,000	444,140	888,140

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

Notes to the financial statements

at 31 December 2020

14. Deferred tax

	£
At 1 January 2020	1,343,088
Charged to the profit and loss account (Note 7 (a))	119,596
Credited to other comprehensive income (Note 7(b))	(163,970)
At 31 December 2020	1,298,714

	2020 £	2019 £
Difference between accumulated depreciation and amortisation and capital allowances	(70,924)	(109,980)
Temporary differences	821,298	801,458
Defined benefit pension plan	548,340	651,610
	1,298,714	1,343,088

15. Called up share capital

Allotted, called up and fully paid	*No.*	£
Ordinary shares of £1 each	27,223	27,223

16. Reserves

Share premium account

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.

Notes to the financial statements
at 31 December 2020

17. Commitments

Leases – company as lessee
The carrying amount of the right-of-use assets recognised and the movements during the year are shown in note 9.

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

	2020	2019
	£	£
As at 1 January	3,065,776	3,539,230
Additions	559,357	334,377
Accretion of interest	(59,148)	(69,518)
Payments	(750,078)	(738,313)
As at 31 December	2,815,907	3,065,776
Current	690,019	649,474
Non-Current	2,125,888	2,416,302

The following are the amounts recognised in the income statement:

	2020	2019
	£	£
Depreciation expenses of right-of-use assets	695,065	682,844
Interest expense on lease liabilities	59,148	69,518
Expense relating to low-value leases (included in cost of sales)	15,452	19,152
Total amount recognised in the income statement	**769,665**	**771,514**

Capital Commitments
Future contractually committed capital spend as at 31 December 2020 totalled £96,963.

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.

Notes to the financial statements

at 31 December 2020

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

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 2023. 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 2020. The results of that valuation have been projected to 31 December 2020 by a qualified independent actuary. The figures in the following disclosure were measured using the Projected Unit Method.

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

	Percentage of plan assets 2020	*Fair value at 31 December 2020*	*Percentage of plan assets 2019*	*Fair value at 31 December 2019*
	%	*£*	*%*	*£*
Quoted Equities	52.4%	40,537,000	59.9%	42,267,000
Quoted Bonds	43.4%	33,549,000	38.5%	27,220,000
Unquoted Others	4.2%	3,263,000	1.6%	1,157,000
Total market value of assets		77,349,000		70,644,000
Present value of scheme liabilities		(74,463,000)		(66,811,000)
Surplus in the scheme		2,886,000		3,833,000

'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 £2,886,000.

The surplus at 31 December 2020, 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:

	2020	*2019*
	£	*£*
Net interest income (Note 6)	(73,000)	(142,000)
Past service costs	157,000	-
	84,000	(142,000)
Remeasurements of the net liability:		
Return on scheme assets	7,472,000	9,085,000
Gain arising from change in financial assumptions	(9,564,000)	(10,101,000)
Gain arising from changes in demographic assumptions	(739,000)	(3,000)
Experience loss	1,968,000	(258,000)
Charge recorded in other comprehensive income	(863,000)	(1,277,000)
Freudenberg Sealing Technologies Limited share	(863,000)	(1,277,000)

Notes to the financial statements

at 31 December 2020

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

The major assumptions and calculation dates for these valuations were:

	2020	2019
	%	%
Rate of increases in salaries	n/a	n/a
Rate of increase in pensions in payment	2.75	2.75
Discount rate	1.35	1.95
Inflation assumption - RPI	2.80	2.80
Inflation assumption - CPI	2.05	1.90
Increases for pensions in payment:		
Pension in excess of GMP - RPI to a max of 5%	2.75	2.75
Pension in excess of GMP - RPI to a max of 5% and min of 3%	3.45	3.45
Pension in excess of GMP - Fixed 5%	5.00	5.00
GMP accrued after 5 April 1988	1.85	1.75
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 21.6 years if they are male and for a further 23 years if they are female. For a member who retires in 2040 at age 65, the assumptions are that they will live on average for a further 22.9 years after retirement if they are a male and a further 24.5 years if they are female. The overall scheme duration has been assumed at 21 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 £7,300,000. If the inflation assumption was 0.5% higher, the scheme liabilities would increase by £6,000,000. If life expectancies were to increase by 1 year, the scheme liabilities would increase by £3,100,000. 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 2020 assumptions have been carefully reviewed with the actuary.

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

	2020	2019
	£	£
As at 1 January	66,811,000	60,083,000
Interest cost	1,284,000	1,637,000
Benefits paid	(2,124,000)	(5,271,000)
Actuarial loss arising from changes in financial assumptions	9,564,000	10,101,000
Actuarial loss from change in demographic assumptions	739,000	3,000
Other experience items	(1,968,000)	258,000
Past service costs	157,000	-
As at 31 December	74,463,000	66,811,000

Notes to the financial statements
at 31 December 2020

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

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

	2020	*2019*
	£	*£*
As at 1 January	70,644,000	65,051,000
Interest income	1,357,000	1,779,000
Total contributions	-	-
Benefits paid	(2,124,000)	(5,271,000)
Return on assets	7,472,000	9,085,000
Liabilities extinguished on settlements	-	-
As at 31 December	77,349,000	70,644,000

The actual return on assets in the year was £8,829,000. No employer contributions are expected for the year ending 31 December 2021.

The company also contributes to a defined contribution pension scheme. Contributions in the year totalled £964,850. 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 year include subsidiary companies and other related parties of Freudenberg & Co Kommanditgesellschaft, the ultimate parent undertaking of Freudenberg Sealing Technologies Limited. The aggregate values of transactions with related parties during the year were as follows:

	2020	*2019*
	£	*£*
Sales	4,924,740	7,084,486
Purchases	24,896,408	27,748,506
Balances as at 31 December with related parties were as follows:		
Amounts included in debtors:		
– Group undertakings	866,336	775,645
Amounts included in creditors due in less than one year:		
– Group undertakings	5,858,115	10,314,798

Transactions included in the above with the ultimate parent company were £nil.

20. Ultimate parent undertaking and controlling party

In the opinion of the directors, Freudenberg & Co Kommanditgesellschaft of Höhnerweg 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 2020

21. Financial instruments

	2020	2019
	£	£
Financial assets measured at amortised cost:		
Trade and other debtors	10,490,559	11,021,377
Amounts due from group undertakings	866,336	775,645
Cash	410,110	23,423
Financial liabilities measured at amortised cost:		
Trade and other creditors	2,526,338	1,506,705
Amounts due to group undertakings	5,858,115	10,314,798
Accruals and accrued income	2,009,582	802,084