

**ContiTech United Kingdom Limited**

**Annual Report and Financial Statements**

**Registered number 1076936**

**31 December 2018**

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## Strategic report

The directors present their annual report and financial statements for the year ended 31 December 2018.

### Business review

ContiTech United Kingdom Limited is part of the Continental Group of companies. The profit for the year retained by the Company was £953,000 (2017: £9,689,000). This reduction was due to employer pension contributions now being processed through Contitech UK Ltd rather than the Continental holding company in London (£7,874,000).

The principal activities of the Company are the manufacture and supply of power transmission belting for automotive, white goods and engineering industries, and the distribution and sale of ContiTech products.

Its main competitors are Gates, Goodyear and Hutchinson.

### Company Objectives and Business Strategy

The Company objective is to achieve and maintain the level of world class supplier to our customers, while making a positive contribution to the profitability of our parent company. The company will also ensure that its employees are proud to be associated with its success.

The Company's overall focus is value creation. The Company's strategy in order to meet this objective is to specialise in high volume low complexity products. ContiTech United Kingdom specialises in multi-rib transmission products for the Automotive Aftermarket, White Goods and General Industry segments within the Power Transmission Group (PTG) of the Continental group.

The regulatory environment in which the Company operates is determined by the customers in the form of approval schemes and audits, and the Parent Company in the form of internal audits and monthly management accounts.

### Principal risks and uncertainties

Through the continual investment in its people, property, promotion and business processes, ContiTech United Kingdom Limited aims to pursue world class standards in the design, manufacture and delivery of our products, systems and services, thereby ensuring competitive advantage and market leadership. It recognises that its future success is entirely dependent on delivering the highest standards of customer service and that the motivation, development and loyalty of its employees are the key to achieving its business goals.

### Brexit

In the event of a no deal Brexit scenario ContiTech UK Ltd faces risk of their profit being adversely affected. This is due to the high sales value to the EU and high purchase of raw materials from the EU. Default to the World Trade tariffs will likely increase both Sales price and purchasing costs resulting in a significant reduction in Sales Margin. Management believe that whatever tariffs are applied the entity will continue as a going concern. This is because any transfer of business to other locations in the group will take 2-3 years. The company is currently preparing for Brexit on a no deal basis and is therefore performing the necessary actions to mitigate the expected risks.

### Key Performance Indicators

The Company considers profit before tax, turnover growth and working capital to be its main financial indicators. The Company has produced a lower than planned profit before tax of £1,666,000 compared to a budget of £10,704,000. As stated above this was mainly due to the change to reporting of employer pension contributions. The change reported in 2018 relates to the contributions from 2018 (£4,106,000) and 2017 (£3,768,000). The planned sales value was set at £29,414,000 and ContiTech UK actually achieved £28,228,000. The Working Capital target (calculated as average (sum of Inventory, Trade receivables-external, and Trade payables-external)/Revenue) was 5.2% and our achievement for the year 2018 was 4.9%.

In addition, there are non-financial targets which are assigned to the Company, which include 'Parts Per Million' objectives, implementation of a corporate lean management initiative and improvement of internal processes.

**Strategic report (continued)**

The Company's goal is to continue providing world class goods to its customers and adding value to the Continental Group. We have recorded tangible improvements in efficiency, and reduction in waste as a result of streamlining our processes.

By order of the board



I Jones  
Director

28.06.2019

Hindley Green Business Park  
Leigh Road  
Hindley Green  
Wigan  
WN2 4TN

2019

## Directors' report

### Dividend

No dividend was paid within the period (2017: *£nil*).

### Directors

The directors who held office during the year were as follows:

I P Jones  
P M Griffin

### Employees

It is the policy of the company that there is no discrimination on the grounds of sex, religion, race or age in considering applications for employment including any necessary retraining. All employees, whether or not disabled, are given equal opportunities to train and to develop their knowledge and experience in order to further their careers.

Communications with employees about matters concerning or of interest to them are provided by means of meetings, circulars, and dedicated notice boards giving information on the company's performance. In addition, the company provides general information by way of information boards, company newsletters and a number of intranet and internet sites. Employee participation and feedback is encouraged.

Within the company induction arrangements provide all employees with an initial understanding of the company's business, as well as their health and safety responsibilities and the terms and conditions of their work.

### Political and charitable contributions

The company made no political contributions (2017: *£nil*) or donations to charities during the year (2017: *£nil*).

### Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

### Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the board

I Jones  
Director



28.06.2019

Hindley Green Business Park  
Leigh Road  
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Wigan  
WN2 4TN

2019

## **Statement of Directors' Responsibilities in Respect of the Strategic Report, the Directors' Report and the Financial Statements**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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 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, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



1 St Peter's Square  
Manchester  
M2 3AE  
United Kingdom

## **Independent Auditor's Report to the Members of ContiTech United Kingdom Limited Opinion**

We have audited the financial statements of ContiTech United Kingdom Limited ("the company") for the year ended 31 December 2018 which comprise the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Financial Position, the Statement of Cash Flows, and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; 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 are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

### **Brexit**

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, such as related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors of all possible future implications for a company and this is particularly the case in relation to Brexit.

### **Going concern**

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model, including the impact of Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

### **Strategic report and directors' report**

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

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

Under the Companies Act 2006, we are required 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.

We have nothing to report in these respects.

### **Directors' responsibilities**

As explained more fully in their statement set out on page 4, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; 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; 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 they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

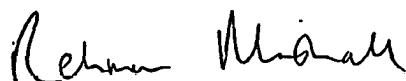
### **Auditor's responsibilities**

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

### **The purpose of our audit work and to whom we owe our responsibilities**

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.



Rehman Minshall (Senior Statutory Auditor)  
for and on behalf of KPMG LLP, Statutory Auditor  
Chartered Accountants  
1 St Peter's Square  
Manchester  
M3 4AR

28/6/ 2019



**Statement of Comprehensive Income**  
*for the year ended 31 December 2018*

	<i>Note</i>	<b>2018</b> <b>£000</b>	<b>2017</b> <b>£000</b>
Revenue	<i>1</i>	28,228	30,224
Cost of sales		(15,087)	(17,404)
<b>Gross profit</b>		<b>13,141</b>	<b>12,820</b>
Other income	<i>2</i>	(7,108)	938
Selling and distribution expenses		(1,235)	(1,355)
Administrative expenses		(3,524)	(1,490)
<b>Operating profit</b>		<b>1,274</b>	<b>10,913</b>
Net financial income	<i>5</i>	392	377
<b>Profit before tax</b>	<i>4</i>	<b>1,666</b>	<b>11,290</b>
Tax expense	<i>6</i>	(832)	(1,601)
<b>Profit for the year</b>		<b>834</b>	<b>9,689</b>
Other Comprehensive Income		-	-
<b>Total Comprehensive Income for the year</b>	<i>15</i>	<b>834</b>	<b>9,689</b>

All of the above is attributable to equity holders of the company.

The notes on pages 11-35 form part of these financial statements.

**Statement of Changes in Equity**  
*for year ended 31 December 2018*

	<i>Note</i>	Share capital £000	Retained earnings £000	Total £000
Balance at 1 January 2017		1,000	40,756	41,756
Total comprehensive income for the year		-	9,689	9,689
Dividends paid to equity holders	16	-	-	-
<b>Balance at 31 December 2017</b>		<b>1,000</b>	<b>50,445</b>	<b>51,445</b>
Balance at 1 January 2018		1,000	50,445	51,445
Total comprehensive income for the year		-	834	834
Dividends paid to equity holders	16	-	-	-
<b>Balance at 31 December 2018</b>		<b>1,000</b>	<b>51,278</b>	<b>52,278</b>

The notes on pages 11-35 form part of these financial statements.

**Statement of Financial Position**  
*at 31 December 2018.*

	<i>Note</i>	<b>2018</b> <b>£000</b>	<b>2017</b> <b>£000</b>
<b>Non- current assets</b>			
Property, plant and equipment	7	3,223	2,087
Intangible assets	8	3	6
Deferred tax assets	10	384	404
<b>Total non-current assets</b>		<b>3,610</b>	<b>2,497</b>
<b>Current assets</b>			
Inventories	11	1,530	1,320
Trade and other receivables	12	50,486	51,439
Cash and cash equivalents	13	1	1
<b>Total current assets</b>		<b>52,017</b>	<b>52,760</b>
<b>Total assets</b>		<b>55,627</b>	<b>55,257</b>
<b>Current liabilities</b>			
Trade and other payables	14	(3,349)	(3,812)
<b>Total liabilities</b>		<b>(3,349)</b>	<b>(3,812)</b>
<b>Net assets</b>		<b>52,278</b>	<b>51,445</b>
<b>Equity</b>			
Share capital	16	1,000	1,000
Retained earnings	16	51,278	50,445
<b>Total equity</b>		<b>52,278</b>	<b>51,445</b>

The notes on pages 11-35 form part of these financial statements.

These financial statements were approved by the board of directors on  
and were signed on its behalf by:

2019

**Ian Jones**  
*Director*



28.06.2019

Company Number: 1076936

**Statement of Cash Flows**  
*for the year ended 31 December 2018*

	<i>Note</i>	<b>2018</b> £000	<b>2017</b> £000
<b>Cash flows from operating activities</b>			
Profit for the year		834	9,689
<i>Adjustments for:</i>			
Depreciation, amortisation and impairment		522	606
Net finance income		(392)	(377)
Tax expense		832	1,601
		<hr/>	<hr/>
		1,796	11,519
Decrease in trade and other receivables		(731)	1,255
Decrease/(increase) in inventory		(210)	81
Increase in trade and other payables		(463)	230
		<hr/>	<hr/>
<b>Cash generated from operations</b>		<b>392</b>	<b>13,085</b>
<b>Cash flows from investing activities</b>			
Acquisition of property, plant and equipment	6,7	(1,656)	(241)
Net interest received		392	377
Income taxes paid		(812)	(1,552)
		<hr/>	<hr/>
<b>Net cash generated from/(used in) investing activities</b>		<b>(2,076)</b>	<b>(1,416)</b>
<b>Cash flows from financing activities</b>			
Dividends paid		-	-
		<hr/>	<hr/>
<b>Net cash generated from financing activities</b>		<b>-</b>	<b>-</b>
		<hr/>	<hr/>
<b>Net increase in cash and cash equivalents</b>		<b>(1,684)</b>	<b>11,669</b>
<b>Cash and cash equivalents at 1 January</b>		<b>49,098</b>	<b>37,343</b>
		<hr/>	<hr/>
<b>Cash and cash equivalents at 31 December</b>	12	<b>47,414</b>	<b>49,012</b>
		<hr/>	<hr/>

The notes on pages 11-35 form part of these financial statements.

## Notes

*(forming part of the financial statements)*

### 1 Accounting policies

ContiTech United Kingdom Limited (the "company") is a single legal company incorporated and domiciled in the UK. The financial statements of the company for the year ended 31 December 2018 cover operations in the UK.

#### *Statement of compliance*

The financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ('Adopted IFRSs').

#### *Basis of preparation*

The financial statements are presented in pounds sterling, rounded to the nearest thousand. They are prepared on the historical cost basis.

The preparation of financial statements in conformity with adopted IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

The company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the company as an individual undertaking and not about its group.

#### *Going concern*

The accounts for ContiTech United Kingdom Ltd have been prepared under the going concern assumption. The directors have prepared forecasts for a period of 12 months from the date of signing these financial statements. These forecasts demonstrate the company has sufficient cash and has a level of headroom which the directors believe is sufficient to continue to trade for at least the next 12 month period. In addition the company continues to reflect an overall net current assets position of £48.7m and is debt free.

#### *Foreign currency*

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at the balance sheet date and the gains or losses on translation are included in the income statement.

#### *Investments in debt and equity securities*

Investments in subsidiaries are carried at cost less impairment.

#### *Property, plant and equipment*

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment

## Notes (continued)

### 1 Accounting policies (continued)

#### *Property, plant and equipment (continued)*

Depreciation is charged to the income statement on a straight line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

Plant and machinery	-	2 – 10 years
Fixtures, fittings, tools and equipment	-	3 – 4 years

#### *Inventories*

Inventories are stated at the lower of cost and net realisable value. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity. Provision is made for obsolete, slow moving or defective items where appropriate.

#### *Intangible assets*

Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

Amortisation is charged to the income statement on a straight line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

Know how	-	10 years
Access rights	-	15 years
Software development	-	3 years

#### *Financial instruments*

##### *Non-derivative financial instruments*

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below:

##### *Trade and other receivables*

The fair value of trade and other receivables, for purposes of providing disclosure information as required by IFRS 7 'Financial Instruments: disclosures', is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material. Doubtful receivable provisions are established based upon the difference between the receivable value and the estimated net collectible amount. Trade and other receivables held in foreign currencies are treated as described in the foreign currency transaction accounting policy note.

##### *Cash and cash equivalents*

Cash and cash equivalents comprise cash and bank balances and an inter-company finance account with Continental UK Group Holdings Limited.

Under IAS 7, the finance account with Continental UK Group Holdings Limited is considered to be a cash equivalent since it forms an integral part of the company's cash management system. It is therefore included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

## Notes (continued)

### 1 Accounting policies (continued)

#### *Trade and other payables*

Trade and other payables are measured at amortised cost using the effective interest method.

The fair value of trade and other payables, for purposes of providing disclosure information as required by IFRS 7 'Financial Instruments: Disclosures', is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material. Amounts held in foreign currencies are treated as described in the foreign currency transaction accounting policy note.

#### *Share capital*

Ordinary shares are classified as equity.

#### *Impairment of assets*

The carrying value of the company's assets, other than inventory and deferred tax assets (refer to applicable accounting policy), are reviewed at each balance sheet date to determine whether there is any indication of impairment.

Where the Directors identify a reduction in the recoverable amount of an asset to below its carrying value, the carrying value of the asset is impaired to its estimated recoverable amount.

The recoverable amount of an asset is the greater of its net realisable value and value in use. The calculation of the value in use of the affected asset reflects the Directors' and executive management's best current estimate of the present value of the future cash flows obtainable as a result of the asset's continued use, including those resulting from its ultimate disposal. Where possible the affected asset is considered separately as an income-generating unit.

Where material to the accounts the impairment of an asset is disclosed separately in the income statement under the statutory heading to which it relates.

#### *Employee benefits*

##### *Defined contribution plans*

Employees who joined the company after 5 April 2002 are eligible to join a defined contribution scheme, the costs of which are recognised as an expense in the income statement as incurred.

##### *Defined benefit plans (Closed as at 5<sup>th</sup> April 2018)*

For employees in service as at 5 April 2002, the company provides pension benefits based on final pensionable pay from a group defined benefit scheme covering several UK Continental companies. The assets of the scheme are held separately from those of the group. Each year the company receives a single line recharge of the net defined benefit cost from the sponsoring employer, Continental UK Group Holdings Limited.

#### *Provisions*

A provision is recognised in the balance sheet when the company has a present 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. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

#### *Revenue*

Revenue from the sale of goods is recognised in the income statement net of VAT and discounts. Revenue is recognised when: the significant risks and rewards of ownership have been transferred to the buyer; the amount of revenue and costs incurred can be measured reliably; it is probable that the economic benefits associated with the transaction will flow to the entity; and the entity relinquishes control over the goods sold. Typically revenue is recognised on despatch of the goods however this can change depending on the shipping terms.

#### *Expenses*

##### *Operating lease payments*

Payments made under operating leases are recognised in the income statement on a straight line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

## Notes (continued)

### 1 Accounting policies (continued)

#### *Finance income and expenses*

Finance income comprises interest income on funds invested and inter-company balances. Interest income is recognised as it accrues in the income statement, using the effective interest method.

Finance expenses comprise interest payable on borrowings and foreign exchange losses. All borrowing costs are recognised in the income statement using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

#### *Income tax*

Income tax on the profit for the year comprises current and deferred tax. Income tax is recognised in the income statement.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which an asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

#### *Accounting standards adopted during the year*

Based on a recent review of all the endorsed IFRS standards and interpretations, there are no standard or interpretation the company has not applied that would materially affect the financial statements for the current year, as well as the comparable balances presented.

#### *Adopted IFRS not yet applied*

The following Adopted IFRSs have been issued but have not been applied in these financial statements. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated:

IFRS 9 Financial Instruments (effective date 1 January 2018). It is expected that there will be no significant effect to the company's financial statements.

IFRS 15 Revenue from Contract with Customers (effective date 1 January 2018). As anticipated there has been no significant effect to the company's financial statements.

IFRS 16 Leases (effective date 1 January 2019). The assets and liabilities on the balance sheets will increase significantly. The nature of costs in the income statements will change, with a material positive impact on EBITDA.

#### *Segment reporting*

As a non-listed entity the company is not required under IFRS 8 to disclose segmental information. Also, in the opinion of the directors, the disclosure of segmental information as required by Companies Act 2006 would be seriously prejudicial to the interests of the reporting entity, therefore it does not need to be disclosed.



**Notes (continued)**

**2 Other income**

	2018 £000	2017 £000
Equalisation Commission	854	938
Pension debit	(7,962)	-
	<u>(7,108)</u>	<u>938</u>

**3 Staff numbers and costs**

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	2018	2017
Production	116	113
Selling and distribution	38	40
Administration	15	15
	<u>169</u>	<u>168</u>

The aggregate payroll costs of these persons were as follows:

	2018 £000	2017 £000
Wages and salaries	6,486	5,301
Social security costs	597	532
Other pension costs	742	700
	<u>7,825</u>	<u>6,533</u>

**Directors' remuneration**

	2018 £000	2017 £000
Directors' emoluments	221	224
Pension contributions	43	43
	<u>264</u>	<u>267</u>

The aggregate emoluments of the highest paid director were £122,988 (2017: £121,368) and company pension contributions of £23,856 (2017: £25,334) were made to a defined benefit scheme on his behalf.

There are no transactions with key management personnel other than the above.

	Number of directors	
	2018	2017
Retirement benefits are accruing to the following number of directors under:		
Defined benefit schemes	<u>2</u>	<u>2</u>

**Notes (continued)**

**4 Operating Profit**

Profit before tax is stated after charging:

	2018 £000	2017 £000
Auditor's remuneration:		
Audit of the Company	27	26
Audit related services	13	30
Other services relating to taxation	3	4
Depreciation of owned tangible fixed assets	519	602
Amortisation of intangible assets	3	4
Hire of other assets – operating leases	504	485
	<hr/>	<hr/>

**5 Financial (Expense)/Income**

	2018 £000	2017 £000
Interest income on financial assets	452	300
Net foreign exchange loss	(60)	77
	<hr/>	<hr/>
Financial income	392	377
	<hr/>	<hr/>

## Notes (continued)

### 6 Taxation

Total tax expense recognised in the profit and loss account, other comprehensive income and equity

	2018 £000	2017 £000
Current tax expense		
Current year	812	1,436
Adjustment in respect of prior years	-	419
	<hr/>	<hr/>
Total current tax charge for the year	812	1,855
Deferred tax	20	(254)
	<hr/>	<hr/>
Total tax expense	832	1,601
	<hr/>	<hr/>

The current tax charge for the year is lower (2018: lower) than the standard rate of corporation tax in the UK of 20% (2018: 20%). The differences are explained below:

	2018 £000	2017 £000
<b>Current tax reconciliation</b>		
Profit on ordinary activities before taxation	1,666	11,290
	<hr/>	<hr/>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19% (2017: 20%)	317	2,258
Effects of:		
Expenses not deductible for tax	4	78
Income not taxable	-	-
Additional deduction for R&D expenditure	-	-
Adjustment in respect of prior period	-	(23)
Adjustment in respect of prior period - deferred tax	-	-
Tax rate changes	-	13
Pension contributions	491	(725)
	<hr/>	<hr/>
Current tax in income statement	812	1,601
	<hr/>	<hr/>

A reduction in the UK corporation tax rate from 21% to 20% (effective 1 April 2017) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2018) and to 18% (effective from 1 April 2020) were substantively enacted on 26 October 2017, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2018. This will reduce the company's future current tax charge accordingly. The deferred tax asset at 31 December 2018 has been calculated based on these rates.

**Notes (continued)**

**7 Property, plant and equipment**

	Plant and machinery £000	Fixtures, fittings tools and equipment £000	Total £000
<i>Cost</i>			
Balance at 1 January 2017	13,336	441	13,777
Additions	208	27	235
Disposals	(63)	-	(63)
<b>Balance at 31 December 2017</b>	<b>13,481</b>	<b>468</b>	<b>13,949</b>
Balance at 1 January 2018	13,481	468	13,949
Additions	1,655	60	1,715
Disposals	(196)	-	(196)
<b>Balance at 31 December 2018</b>	<b>14,940</b>	<b>528</b>	<b>15,468</b>
<i>Depreciation</i>			
Balance at 1 January 2017	11,027	296	11,323
Charge for the year	570	32	602
Disposals	(63)	-	(63)
<b>Balance at 31 December 2017</b>	<b>11,534</b>	<b>328</b>	<b>11,862</b>
Balance at 1 January 2018	11,534	328	11,862
Charge for the year	483	36	519
Disposals	(136)	-	(136)
<b>Balance at 31 December 2018</b>	<b>11,881</b>	<b>364</b>	<b>12,245</b>
<i>Net book value</i>			
At 1 January 2017	2,309	145	2,454
At 31 December 2017 and 1 January 2018	1,947	140	2,087
<b>At 31 December 2018</b>	<b>3,059</b>	<b>164</b>	<b>3,223</b>

**Notes (continued)**

**8 Intangible assets**

	Know how £000	Access rights £000	Software Development £000	Total £000
<i>Cost</i>				
Balance at 31 December 2017, 1 January 2018 and 31 December 2018	129	224	254	607
<i>Amortisation and impairment</i>				
Balance at 1 January 2018 and 31 December 2017	129	224	248	601
Charge for the year	-	-	3	3
Balance at 31 December 2018	129	224	251	604
<i>Net book value</i>				
Balance at 1 January 2018 and 31 December 2017	-	-	6	6
Balance at 31 December 2018	-	-	3	3

**9 Investments**

The company had the following investment in subsidiaries:

	Country of incorporation and registration	Class of shares held	Ownership	
			2018	2017
ContiTech Thermopol Limited	United Kingdom	Ordinary	100%	100%

The company acquired a 100% share of ContiTech Thermopol Limited on 2 December 2008. The investment had been impaired in previous years to reflect the Directors estimate of the fair value of the investment. The subsidiary is based at Mercer & Hole, Fleet Place House, 2 Fleet Place, London, EC4M 7RF.

**Notes (continued)**

**10 Deferred tax assets and liabilities**

*Recognised deferred tax assets and liabilities*

Deferred tax assets and liabilities are attributed to the following:

	Assets		Liabilities		Net	
	2018	2017	2018	2017	2018	2017
	£000	£000	£000	£000	£000	£000
Property, plant and equipment	68	68	-	-	68	68
Timing differences	316	336	-	-	316	336
Net tax assets	384	404	-	-	384	404

*Movement in temporary differences during the year*

	Balance at 1 January 2018 £000	Recognised in Income statement £000	Balance at 31 December 2018 £000
Property, plant and equipment	48	20	68
Provisions	102	234	336
Total assets	150	254	404

*Movement in temporary differences during the prior year*

	Balance at 1 January 2017 £000	Recognised in Income statement £000	Balance at 31 December 2017 £000
Property, plant and equipment	83	(36)	47
Provisions	19	84	103
Total assets	102	48	150

**11 Inventories**

	2018 £000	2017 £000
Raw materials and consumables	707	704
Work in progress	168	123
Finished goods	655	493
	1,530	1,320

The carrying value of inventory is not materially different from its recoverable amount.

Included within inventories is £1,530,000 (2017: £1,320,000) expected to be recovered in more than 12 months.

Raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales in the year amounted to £10,938,000 (2017: £12,100,000).

**Notes (continued)**

**12 Trade and other receivables**

	2018 £000	2017 £000
Receivables due from affiliates	48,693	49,268
Trade receivables net of impairment loss recognised	1,460	1,684
	<u>50,153</u>	<u>50,952</u>
Other receivables	288	271
Prepayments and accrued income	45	216
	<u>50,486</u>	<u>51,439</u>

**13 Cash and cash equivalents**

	2018 £000	2017 £000
Bank balances (petty cash)	1	1
Finance account with Continental UK Group Holdings Limited	47,313	49,097
	<u>47,314</u>	<u>49,098</u>

The finance account with Continental UK Group Holdings is shown within 'receivables due from affiliates' as disclosed in note 12.

**14 Trade and other payables**

	2018 £000	2017 £000
Payables due to affiliates	263	173
Trade payables	1,528	1,798
Corporation tax	419	419
Accruals and deferred income	1,139	1,422
	<u>3,349</u>	<u>3,812</u>

## Notes (continued)

### 15 Employee benefits

#### Pension plans

##### *Defined benefit scheme*

The company provides pension benefits to eligible employees based on final pensionable pay. Benefits are provided via a group defined benefit scheme covering Continental Tyre Group Limited and ContiTech United Kingdom Limited with Continental UK Group Holdings Limited as the sponsoring employer. The assets of the scheme are held separately from those of the group. As sponsoring employer, all assets and liabilities in relation to the scheme are shown in the accounts of Continental UK Group Holdings Limited, whilst the charge or credit to the income statement is partially recharged to Continental Tyre Group Limited and ContiTech United Kingdom Limited which are settled for cash.

The group sponsors the plan which is a funded defined benefit arrangement. This is a spate trustee administered fund holding the pension plan assets to meet long term pension liabilities for some 740 past and 96 present employees as at 5 April 2015. The level of retirement benefit is principally based on salary earned in the last three years of employment prior to leaving active service and is linked to changes in inflation up to retirement.

The plan is subject to the funding legislation, which came into force on 30 December 2005, outlined in the Pensions Act 2004. This, together with documents issued by the Pensions Regulator, and Guidance Notes adopted by the Financial reporting Council, set out the framework for funding defined benefit occupational pension plans in the UK.

A full actuarial valuation was carried out as at 5 April 2017 in accordance with the scheme funding requirements of the Pensions Act 2004 and the funding of the plan is agreed between the Company and the trustees in line with those requirements. These in particular require the surplus /deficit to be calculated using prudent, as opposed to best estimate actuarial assumptions.

This actuarial valuation showed a deficit of £68,304,000. The Group has agreed with the trustees that it will aim to eliminate the deficit over a period of 5 years from 5 April 2018 by the payment of annual contributions of £10,721,000 in respect of the deficit. A single payment of £15,000,000 was also paid before 5 April 2018. In addition and in accordance with the actuarial valuation, the Company has agreed with the trustees that it will pay 40.1% of pensionable earnings up to 5 April 2018 in respect of the cost of benefit accrual. The plan closed to future accrual on 5 April 2018.

For the purposes of IAS19 the preliminary actuarial valuation as at 5 April 2017, which is being carried out by a qualified independent actuary, has been updated on an approximate basis to 31 December 2018. There have been no changes in the valuation methodology adopted for this period's disclosures compared to the previous period's disclosures.

Under the IAS 19 valuation basis, the Group applies the principles of IFRIC14, 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction', whereby a surplus is only recognised to the extent that the Group is able to access the surplus through an unconditional right of refund to the surplus. The Company has determined that the rules set out in the pension plan's governing documentation provide for an unconditional right to a refund from any future surplus funds in the plan assuming the gradual settlement of the plan liabilities over the time until all member have left the plan.



**Notes (continued)**

**15 Employee benefits (continued)**

**Pension plans (continued)**

The detailed particulars of the group scheme are disclosed in the financial statements of Continental UK Group Holdings Limited. However the following information is shown in accordance with IAS 19.

The group scheme has the following positions:

	2018 £'000	2017 £'000
Fair value of plan assets	137,930	134,062
Present value of defined benefit obligations	116,438	123,657
Surplus/(deficit) in scheme	21,492	10,405
Impact of asset ceiling	-	-
Asset/(liability) to be recognised	21,492	10,405
Deferred Tax	(3,654)	(1,769)
Net asset/(liability) to be recognised	17,838	8,636

The present value of plan liabilities is measured by discounting the best estimate of future cash flows to be paid out by the plan using the projected unit credit method. The value calculated in this way is reflected in the net liability in the balance sheet as shown above.

The projected unit credit method is an accrued benefits valuation method in which allowance is made for projected earnings increases. The accumulated benefit obligation is an alternative actuarial measure of the plan liabilities, whose calculation differs from that under the projected unit credit method in that it includes no assumption for future earnings increases. In assessing this figure for the purpose of these disclosures, allowance has been made for future statutory revaluation of benefits up to retirement. At the balance sheet date the accumulated benefit obligation was £123,657,000.

## Notes (continued)

### 15 Employee benefits (continued)

#### Pension plans (continued)

The company have reviewed the implications of the guidance provided by IFRIC14 and have concluded that it is not necessary to make any adjustments to the IAS19 figures in respect of an asset ceiling or Minimum Funding Requirement as at 31 December 2018.

	2018 £'000	2017 £'000
Defined benefit obligation at start of period	123,657	123,380
Current service cost	116	132
Expenses	191	333
Interest cost	2,954	3,218
Contributions by plan participants	-	-
Actuarial (gains)/loss due to scheme experiences	(6,117)	(496)
Actuarial (gains) due to changes in demographic assumptions	-	(1,395)
Actuarial (gains)/loss due to changes in financial assumptions	-	2,881
Benefit paid, death in service premiums and expenses	(6,534)	(4,396)
Past service costs	2,171	-
(Gains)/losses on curtailments	-	-
Defined benefit obligation at end of period	116,438	123,657

There have been no plan amendments, curtailments or settlements in the accounting period.

#### Reconciliation of the opening and closing values of the fair value of plan assets

	2018 £'000	2017 £'000
Fair value of plan assets at start of period	134,062	139,325
Interest income	(3,925)	3,854
Return on plan assets(excluding amounts included in interest income)	3,406	(15,642)
Contributions by the Company	10,921	10,921
Contributions by plan participants	-	-
Benefit paid, death in service premiums and expenses	(6,534)	(4,396)
Fair value of plan assets at end of period	137,930	134,062

The actual return on the plan assets over the period ending 31 December 2018 was (£11,788,000).

**Notes (continued)**

**15 Employee benefits (continued)**

**Pension plans (continued)**

**Defined benefit costs recognised in profit or loss**

	2018 £'000	2017 £'000
Service cost:		
Current service cost	116	132
Past service cost and loss/(gain) from settlements	-	-
Expenses	191	333
Net interest cost	(452)	(636)
	<hr/>	<hr/>
Fair value of plan assets at end of period	(145)	(171)
	<hr/>	<hr/>

**Defined Benefit cost recognised in other comprehensive income**

	2018 £'000	2017 £'000
Return on plan assets (excluding amounts included in interest income)	3,406	(15,642)
Experience gains and losses arising on the defined benefit obligation gain	6,117	496
Effects of changes in the demographic assumptions underlying the present value of the defined benefit obligation gain	-	1,395
Effects of changes in the financial assumptions underlying the present value of the defined benefit obligation gain/(loss)	-	(2,881)
	<hr/>	<hr/>
Total actuarial gains and losses (before restriction due to some of the surplus not being recognisable) gain.(loss)	9,523	(16,632)
Effect of the asset ceiling (excluding amounts included in net interest cost) (loss)/gain	-	-
	<hr/>	<hr/>
Fair value of plan assets at end of period	9,523	(16,632)
	<hr/>	<hr/>

**Notes (continued)**

**15 Employee benefits (continued)**

**Pension plans (continued)**

**Assets**

	2018	2017
	£'000	£'000
Fixed Income/Debt Securities	47,946	50,488
Diversified Growth Funds (Equity)	10,621	11,270
Cash	5,971	491
Growth Assets (absolute return fund)	25,345	25,746
Insured pensioners	48,047	46,067
<b>Total Assets</b>	<b>137,930</b>	<b>134,062</b>

None of the fair values of the assets shown above include any of the Company's own financial instruments or any property occupied by, or other assets used by, the Company. All of the scheme assets have a quoted market price in an active market with the exception of the Trustee's bank account balance.

It is the policy of the trustees and the Company to review the investment strategy at the time of each funding valuation. The trustees' investment objectives and the processes undertaken to measure and manage the risks inherent in the plan investment strategy are documented in the plan's Statement of Investment Principles.

A proportion of the plan assets are invested in Liability Driven Investment (LDI) funds. The plan therefore holds assets which aim to behave in the same way as the liabilities which should result in reduced volatility of the scheme deficit. The scheme also purchased insurance policies to match the liabilities in relation to current pensioner members.

**Significant actuarial assumptions (expressed as weighted averages):**

	2018	2017	2014
Discount rate for liabilities		2.45%	3.80%
Salary increases	N/A	N/A	4.30%
Rate of increase for pensions in payment and deferred pensions- RPI 5% / CPI 5%		3.25%/2.25%	3.15%/2.20%

The mortality assumptions adopted at 31 December 2018 are 110% of the standard tables S2PxA, Year of Birth, no age rating for males and females, projected using CMI\_2015 converging to 1.25% p.a. These imply the following life expectancies:

	Life expectancy at age 65 years
Male retiring in 2018	21.3
Female retiring in 2018	23.2
Male retiring in 2037	22.7
Female retiring in 2037	24.7

## Notes (continued)

### 15 Employee benefits (continued)

#### Pension plans (continued)

#### Analysis of the sensitivity to the principle assumptions of the present value of defined benefit obligation

	Change in assumption	Change in liabilities
Discount rate	Decrease of 0.5% p.a.	Increase by 9.0%
Rate of inflation (revaluation and pension increases only)	Increase of 0.5% p.a.	Increase by 5.0%
Rate of mortality	Increase in life expectancy of 1 year	Increase by 3.1%
Commutation	Members commute an extra 10% of post a day pension on retirement	Decrease of 0.7%

The sensitivities shown above are approximate. Each sensitivity considers one change in isolation. The inflation sensitivity includes the impact of changes to the assumptions for revaluation, pension increases and excludes salary growth. The average duration of the defined benefit obligation at the period ending 31 December 2018 is 18 years.

The plan typically exposes the Group to actuarial risks such as investment risk, interest rate risk, salary growth risk, mortality risk and longevity risk. A decrease in corporate bond yields, a rise in inflation or an increase in life expectancy would result in an increase to plan liabilities. This would detrimentally impact the balance sheet position and may give rise to increased charges in future P&L accounts. This effect would be partially offset by an increase in the value of the plan's bond holdings, and in any qualifying death in service insurance policies that cover the mortality risk. Additionally, caps on inflationary increases are in place to protect the plan against extreme inflation.

The best estimate of contributions to be paid by the Group to the scheme for the period commencing 1 January 2018 is £10,921,000.

#### Expenses recognized in the income statement

During the year the Group charged £383,160 (2017: credited £2,746,753) to Continental Tyre Group Ltd and ContiTech United Kingdom Limited in respect of the net periodic benefit costs under the group defined benefit scheme. ContiTech United Kingdom Limited's proportion of this charge was £168,015 (2017: credit £1,208,000). The split was calculated based on number of members in the pension scheme in each entity, and the resulting debit or credit is the service cost of the scheme.

During the year the total expenses included in the Group income statement as a component of administration expenses was a credit of £81,840 (2017: credit £694,450).

## 15 Employee benefits (continued)

### Pension plans (continued)

#### ContiTech UK contributions to the defined benefit plan

Pension costs for the defined benefit scheme amounted to £nil (2017: £nil) as the scheme is now closed and no further contributions are therefore payable. There were no outstanding contributions at year end.

#### Defined contribution scheme

Pension costs for the defined contribution scheme amounted to £627,000. There were no outstanding contributions at year end.

## 16 Capital and reserves

### Reconciliation of movement in capital and reserves

#### Attributable to equity holders of the company

	Share capital £000	Retained Earnings £000	Total £000
Balance at 1 January 2017	1,000	40,760	41,760
Total recognised income and expense	-	9,685	9,685
Balance at 31 December 2017	1,000	50,445	51,445
Balance at 1 January 2018	-	832	832
Total recognised income and expense	-	832	832
Balance at 31 December 2018	1,000	51,278	52,278
Share capital		2018 £000	2017 £000
1,000,000 ordinary shares of £1 each		1,000	1,000

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

## Notes (continued)

### 17 Financial Instruments

The company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the company's exposure to each of the above risks, the company's objectives, policies and processes for measuring and managing risk, and the company's management of capital. Further quantitative disclosures are included throughout these financial statements.

#### *Fair values*

The carrying value for each class of financial assets and financial liabilities in the balance sheet, which are given below, are not considered to be materially different to their fair values. The basis for calculation of fair values, where applicable, is set out in the accounting policy notes:

IAS 39 categories of financial instruments:

	Carrying amount 2018 £000	Carrying amount 2017 £000
Loans and receivables	50,486	51,439
Cash and cash equivalents	1	1
<b>Total financial assets</b>	<b>50,487</b>	<b>51,440</b>
Trade and other payables	(2,930)	(3,393)
<b>Total financial liabilities</b>	<b>(2,930)</b>	<b>(3,393)</b>
<b>Total financial instruments</b>	<b>47,557</b>	<b>48,047</b>

#### *Credit risk*

Credit risk is the risk of financial loss to the company if a customer or counter-party to a financial instrument fails to meet its contractual obligations, and arises principally from the company's receivables from customers and loans to related parties.

Management has a credit policy in place and monitors credit risk on an on-going basis. Credit checks are performed on all customers requiring credit. At the balance sheet date, there were no significant concentrations of credit risk.

There is not considered to be any credit risk in relation to cash and cash equivalents.

The company's exposure is attributable to dealings with a wide-range of customers across established and clearly defined business units; Automotive, White Goods and Industrial Goods.

Management has established, within corporate guidelines, a formal credit policy which is reviewed annually by central corporate credit management. New and existing customers are constantly monitored for creditworthiness, using external information, including published accounts. Credit limits are set and are subject to ongoing review.

The vast majority of the company's customers have been buying from the company for well over ten years and receive regular personal visits.

**Notes (continued)**

**17 Financial Instruments (continued)**

Wherever possible goods are sold subject to retention of title clauses so that there is a reasonable expectation of recovery should customers default. More often than not the company does not require collateral in respect of trade receivables.

The company has made an impairment allowance against trade receivables based on historical evidence. The maximum exposure to credit risk is represented by the carrying value in the balance sheet.

The maximum exposure to credit risk for trade receivables by geographic region as at 31 December was:

	2018 £000	2017 £000
United Kingdom	348	391
Rest of world	1,112	1,293
<b>Total</b>	<b>1,460</b>	<b>1,684</b>

The maximum exposure to credit risk for trade receivables by customer type as at 31 December was:

	2018 £000	2017 £000
Automotive	3	72
White Goods	1,458	1,574
Industrial Goods	27	91
<b>Sub Total</b>	<b>1,488</b>	<b>1,737</b>
<i>Less Allowance</i>		
Automotive	-	(2)
White Goods	(26)	(48)
Industrial Goods	(2)	(3)
	<b>(28)</b>	<b>(53)</b>
<i>Net position</i>		
Automotive	3	70
White Goods	1,432	1,526
Industrial Goods	25	88
<b>Total</b>	<b>1,460</b>	<b>1,684</b>



## Notes (continued)

### 17 Financial instruments (continued)

#### Credit risk (continued)

The most significant customer accounts for £678,857 of the trade receivables carrying value at 31 December 2018.

The ageing of trade debtors as at 31 December was:

	Gross £000	2018 Impairment Allowance £000	Net £000	Gross £000	2017 Impairment Allowance £000	Net £000
Not past due	1,318	(10)	1,308	1,569	(17)	1,552
Past due 1-29 days	139	(15)	124	143	(1)	142
Past due 30-90 days	-	-	-	6	-	6
Past due 91-120 days	31	(3)	28	5	-	5
Past due >121 days	-	-	-	14	(35)	(21)
	<u>1,488</u>	<u>(28)</u>	<u>1,460</u>	<u>1,737</u>	<u>(53)</u>	<u>1,684</u>

#### Impairment allowance

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2018 £000	2017 £000
Balance at 1 January	53	335
Increase/(release) of impairment allowance	(25)	(282)
Balance at 31 December	<u>28</u>	<u>53</u>

The allowance for trade receivables is used to record impairment losses unless the company is satisfied that no recovery of the amount owing is possible, at that point the amounts considered irrecoverable are written off against trade receivables directly. The company's policy is to impair all balances, net of recoverable VAT, by 1.5%.

#### Receivables due from affiliates

Receivables due from affiliates arise in the normal course of business from trading with affiliates. The company has not made any impairment allowance against the affiliated balances at the year end as the directors are of the opinion there is no credit risk on these. The carrying value at the balance sheet date was £48,793,000.

## Notes (continued)

### 17 Financial instruments (continued)

#### Liquidity risk (continued)

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due. The company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the company's reputation.

The company operates within a UK-wide cash pooling arrangement with the clearing bankers. This is managed by Continental UK Group Holdings Limited within corporate guidelines. Regular sweeps are made of the company's bank account during the week into the pooling account. All companies in this arrangement cross-guarantee bank overdrafts up to a limit of £5 million.

The holding company obviates the need for the company to make any short-term investments or from seeking their own bank borrowings, in order to optimise the use of its group credit lines.

Monthly payments to Continental AG Group for purchases of product are settled automatically in line with corporate policy. Payments to third parties are made within agreed payment terms.

The company is able to meet its financial obligations when due.

The following are the contractual maturities of financial liabilities including estimated interest payments and excluding the impact of netting arrangements as at 31 December 2018.

2018 Contractual £000					
	Carrying value	Cashflows	< 6 months	6-12 months	1-2 years
Trade payables	1,528	(1,528)	(1,528)	-	-
Payables to affiliates	263	(263)	(263)	-	-
Accruals	1,139	(1,139)	(1,139)	-	-
	<u>2,930</u>	<u>(2,930)</u>	<u>(2,930)</u>	<u>-</u>	<u>-</u>
2017 Contractual £000					
	Carrying value	Cashflows	< 6 months	6-12 months	1-2 years
Trade payables	1,798	(1,798)	(1,798)	-	-
Payables to affiliates	173	(173)	(173)	-	-
Accruals	1,422	(1,422)	(1,422)	-	-
	<u>3,393</u>	<u>(3,393)</u>	<u>(3,393)</u>	<u>-</u>	<u>-</u>

#### Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the company's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters.

#### Interest rate risk

The company has borrowings and has advanced loans that incur and generate interest at floating rates and hence is exposed to interest rate risk. No interest rate swaps are used. Management constantly monitors the floating interest rates so that action can be taken should it be considered necessary.

The company does not hedge currencies nor engage in interest rate swaps. There are no available-for-sale equity securities.

## Notes (continued)

### 17 Financial instruments (continued)

#### Sensitivity analysis

A 1% increase in interest rates at the balance sheet date would have no material effect on equity and profit or loss.

#### Foreign currency risk

The company's raw material purchases are mainly from European and UK companies who invoice in Euros and Sterling. The majority of sales are into Europe and the UK and are invoiced in Euros and Sterling. The company is exposed to foreign currency risk on both purchases and sales. Foreign exchange differences on retranslation of these assets and liabilities are taken to the income statement. No forward contracts are used to fix the exchange rate on future transactions.

The company's exposure to foreign currency risk is as follows:

31 December 2018	Sterling £000	Euro £000	US Dollar £000	Other £000	Total £000
Cash and Cash equivalents	1	-	-	-	1
Trade receivables	329	1,031	97	3	1,460
Receivables due from affiliates	47,413	360	920	-	48,693
Trade payables	1,094	434	-	-	1,528
Payables due to affiliates	263	-	-	-	263
<b>Balance sheet exposure</b>	<b>49,100</b>	<b>1,825</b>	<b>1,017</b>	<b>3</b>	<b>51,945</b>
<b>31 December 2017</b>	<b>Sterling £000</b>	<b>Euro £000</b>	<b>US Dollar £000</b>	<b>Other £000</b>	<b>Total £000</b>
Cash and Cash equivalents	1	-	-	-	1
Trade receivables	399	1,159	126	-	1,684
Receivables due from affiliates	49,098	163	-	7	49,268
Trade payables	1,277	503	18	-	1,798
Payables due to affiliates	174	-	-	-	174
<b>Balance sheet exposure</b>	<b>50,949</b>	<b>1,825</b>	<b>144</b>	<b>7</b>	<b>52,925</b>

The following significant exchange rates applied during the year:

	2018 Average rate	2017 Average rate	2018 Year end mid-spot rate	2017 Year end mid-spot rate
Euro €1 = £	0.8846	0.8763	0.8859	0.8877
US Dollar \$1 = £	0.7481	0.776	0.7611	0.741

#### Sensitivity analysis

A 1% weakening in the Euro and US dollar against the pound sterling at 31 December 2018 would have had no material effect on equity and profit or loss.

## Notes (continued)

### 18 Financial Instruments (continued)

#### Capital Management

The company's objective when managing capital is to maintain a strong capital base, to maintain confidence in, and to sustain future development of, the business.

The company sets the amount of capital in proportion to risk. The company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In assessing the level of capital, all components of equity are taken into account (i.e. share capital and retained earnings) which at 31 December 2018 amounted to £52,398,000. The company is not subject to any externally imposed capital requirements. Management of capital therefore focuses around the company's ability to generate cash from its operations.

In order to maintain or adjust the capital structure, the company may adjust dividends paid or sell assets to raise funds. The company believes that it is meeting its objectives for managing capital, as funds are available for re-investment where necessary.

There were no changes in the approach to capital management during the year.

### 19 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	Land & buildings £000	Plant & Machinery £000	Total 2018 £000	Land & buildings £000	Plant and machinery £000	Total 2017 £000
Less than one year	282	228	510	285	210	495
Between one and five years	465	560	1,025	1,140	508	1,648
	<u>747</u>	<u>788</u>	<u>1,535</u>	<u>1,425</u>	<u>718</u>	<u>2,143</u>

During the year £510,000 was recognised as an expense in the income statement in respect of operating leases (2017: £495,000).

### 20 Capital commitments

During the year, the company entered into a contract to purchase property, plant and equipment for £1,716,000. These commitments are expected to be settled in the following financial year.

### 21 Contingencies

The company has entered into a joint agreement with Continental UK Group Holdings Limited, Continental Tyre Group Limited and Continental Teves UK Limited to cross guarantee bank overdrafts up to a limit of £5 million.

## Notes (continued)

### 22 Related parties

#### *Affiliated companies*

During the years ended 31 December 2018 and 31 December 2017 the following related party transactions and balances exist with affiliated Continental companies.

	2018 £000	2017 £000
<b>Transactions</b>		
Purchase of goods	5,041	5,228
Sales of goods	21,180	21,162
Interest received	453	300
Recharges of expenses	779	1,248
	<hr/>	<hr/>
<b>Year end balances</b>		
<i>Within trade and other receivables</i>		
CT Fluid Romania	-	-
CT USA	920	-
ContiTech Antriebssysteme GmbH	320	151
TIC Italy	-	-
ContiTech Brasil	40	9
CT AG	-	3
CT Romania	-	8
Continental UK Group Holdings	47,413	49,097
Conti India	-	-
Dan Belt	-	-
	<hr/>	<hr/>
	48,693	49,268
<i>Within trade and other payables</i>		
CT Vibration Control GmbH	(116)	(43)
CT Romania SRL	-	-
Continental Eng Serv	-	-
ContiTech China	(102)	(113)
Continental AG	-	-
CT Anoflex	(2)	-
CT Aftermarket	(35)	(1)
CT Automotive Romania	(6)	(16)
CT Conveyor	(3)	-
	<hr/>	<hr/>
	(263)	(173)
	<hr/>	<hr/>
	48,430	49,095
	<hr/>	<hr/>

Consideration for all transactions is physical cash.

### 23 Ultimate parent company and parent company of a larger group

The company's ultimate parent company is Continental AG incorporated in Germany. The company's immediate parent company is ContiTech Holdings Netherland B.V, a company incorporated in The Netherlands.

The largest and smallest group in which the results of the company are consolidated is that headed by Continental AG. The consolidated accounts of these groups are available to the public and may be obtained from Vahrenwalder Strasse 9, 3000 Hanover 1, Germany.