

ContiTech United Kingdom Limited

Annual Report and Financial Statements

Registered number 1076936

31 December 2019



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Strategic report

The directors present their annual report and financial statements for the year ended 31 December 2019.

Business review

ContiTech United Kingdom Limited is part of the Continental Group of companies. The profit for the year retained by the Company was £4,441,000 (2018:£833,000). This increase was due to employer pension contributions now being processed through Contitech UK Ltd rather than the Continental holding company in London. The effect reported in 2018 was for both 2017 and 2018 (£7,874,000), the effect for 2019 is £4,106,000.

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 supply 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 quality audits, and the Parent Company in the form of internal audits and monthly management accounts.

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.

Principal risks and uncertainties

Brexit

There is now a transition period until the end of 2020 while the UK and EU enter into trade negotiations. The current rules on trade for the UK and EU will continue to apply during this transitional period. Assuming a worst case scenario, defaulting to the World Trade tariffs will likely increase both sales price and purchasing costs resulting in a significant reduction in sales margin. This is due to the high level of sales to the EU and high level of purchases of raw materials from the EU. Similar to the company's no-deal Brexit preparations the Directors 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 therefore performing the necessary actions to mitigate the expected risks.

COVID-19

While COVID-19 continues to evolve, the Directors are monitoring developments closely, looking to mitigate the risk that it may have on the employees, customers and supply chain. The factory has remained open throughout the Pandemic the Directors expect this to be the case throughout 2021. However the Directors will continue to assess the impact of the outbreak on the operational and financial performance of the Company.

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 £5,167,000 compared to a budget of £10,757,000. This was mainly due to a reduction in sales of £5,529,000. In addition there was also employer pension contributions that was not included in the budget (£4,106,000), as stated above. The planned sales value was set at £33,345,000 and ContiTech UK actually achieved £27,816,000. The Working Capital target (calculated as average (sum of Inventory, Trade receivables-external, and Trade payables-external)/Revenue) was 3.4% and our achievement for the year 2019 was 5.2%.

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.

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.

Division of responsibilities

Exercising reasonable care, skill and due diligence, the Statutory Directors collectively act to make decisions on behalf of the company. They make the strategic and operational decisions and are responsible for ensuring that the company meets its statutory obligations.

Additionally, the role of the Statutory Directors is to promote the success of the company, giving due regard to:

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

Our Stakeholders

Our goal is to take a leading position in the global market and in the ContiTech Group. We will create sustainable values and act responsibly to achieve that goal. The satisfaction of our customers (internal/external), employees and society is the benchmark for our actions. It secures our jobs. Our rule is "zero mistakes" because the constant pursuit of accuracy is more efficient than correcting mistakes.

Each employee makes his or her personal contribution by error-free, prudent and forward-looking actions in the areas of

- quality,
- environmental protection
- prevention work-related injury and ill health
- efficient energy use / energy saving

Our management promotes the information, motivation and competence of each individual employee through targeted and planned training and further educational measures.

The management will provide the necessary resources and information to:

- achieve the strategic and operational goals,
- further develop the management system,
- acquire safe and energy efficient products and services.

We commit ourselves to:

- comply with customer requirements,
- comply with applicable statutory requirements and other binding obligations
- provide safe and healthy working conditions for the prevention of work-related injury and ill health, to eliminate hazards, to reduce occupational safety and health risks and to consult and to participate the workers or their representatives.
- protect the environment i.e. prevent environmental pollution, use resources sparingly, and
- reduce energy consumption.

For achieving our corporate goals all our processes and our management system are subject to constant improvement.

This enables us to achieve

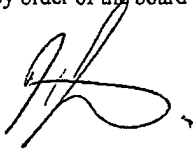
- customer satisfaction,
- continuous sustainable improvement of
- environmental performance,
- energy related performance as well as
- health and safety related performance,

We identify potentials, make decisions and define measures based on process performance indicators and process results.

We cultivate long-term business relationships for mutual benefit in partnership with our suppliers and service providers. This applies with a simultaneous request for the continuous improvement of the product quality with minimization of environmental influences as well as the adherence of the business partner code of conduct

All our processes are designed to be in line with the objectives of our company, of customers requirements as well as the relevant requirements of all other interested parties.

By order of the board



I Jones
Director
Hindley Green Business Park
Leigh Rd,
Hindley Green
Wigan
WN2 4TN

3rd December 2020

Directors' report

Dividend

No dividend was paid within the period (2018: £ 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 (2018: £nil) or donations to charities during the year (2018: £nil).

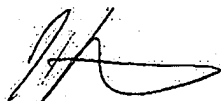
Disclosure of information to auditor

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



Ian Jones
Director
Hindley Green Business Park
Leigh Rd,
Hindley Green
Wigan
WN2 4TN

3rd December 2020

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.



One 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 2019 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 2019 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.

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 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 5, 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.

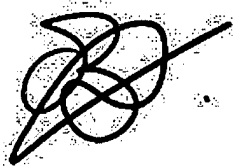
Auditor's responsibilities

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.

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.



Christian Bower-Sloane (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 St Peter's Square
Manchester
M2 3AE

8 December 2020

Statement of Comprehensive Income
for the year ended 31 December 2019

	<i>Note</i>	2019 £000	2018 £000
Revenue		27,816	28,228
Cost of sales		(14,269)	(15,087)
Gross profit		13,546	13,141
Other expenses	2	(3,724)	(7,108)
Selling and distribution expenses		(393)	(1,235)
Administrative expenses		(4,648)	(3,524)
Operating profit	4	4,782	1,274
Financial income	5	385	392
Profit before tax		5,167	1,666
Tax expense	6	(723)	(832)
Profit for the year		4,444	834
Other Comprehensive Income		-	-
Total Comprehensive Income for the year	15	4,444	834

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

The notes on pages 12-39 form part of these financial statements.

Statement of Changes in Equity
for year ended 31 December 2019

	Share capital £000	Retained earnings £000	Total £000
Balance at 1 January 2018	1,000	50,445	51,445
Total comprehensive income for the year	-	834	834
Balance at 31 December 2018	1,000	51,278	52,278
Balance at 1 January 2019	1,000	51,278	52,278
Total comprehensive income for the year	-	4,444	4,444
Balance at 31 December 2019	1,000	55,722	56,722

The notes on pages 12-39 form part of these financial statements.

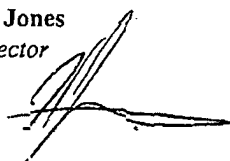
Statement of Financial Position
at 31 December 2019

	<i>Note</i>	2019 £000	2018 £000
Non-current assets			
Property, plant and equipment	7	7,149	3,223
Intangible assets	8	5	3
Investments in subsidiaries		-	-
Deferred tax assets	9	13	384
Total non-current assets		7,167	3,610
Current assets			
Inventories	10	1,712	1,530
Trade and other receivables	11	55,872	50,486
Cash and cash equivalents	12	-	1
Total current assets		57,584	52,017
Total assets		64,751	55,627
Current liabilities			
Trade and other payables	13	(4,242)	(3,349)
Long term liabilities			
Lease liabilities	17	(3,787)	-
Total liabilities		(8,029)	(3,349)
Net assets		56,722	52,278
Equity			
Share capital	15	1,000	1,000
Retained earnings	15	55,722	51,278
Total equity		56,722	52,278

The notes on pages 12-39 form part of these financial statements.

These financial statements were approved by the board of directors on 3rd December 2020 and were signed on its behalf by:

Ian Jones
Director



Company Number: 1076936

Statement of Cash Flows
for the year ended 31 December 2019

	<i>Note</i>	2019 £000	2018 £000
Cash flows from operating activities			
Profit for the year		4,444	834
<i>Adjustments for:</i>			
Depreciation, amortisation and impairment		1,096	522
Net finance Income		(385)	(392)
Tax expense		723	832
		<hr/>	<hr/>
		5,878	1,796
(Increase)/decrease in trade and other receivables		(182)	(731)
Decrease/(increase) in inventory		353	(210)
Decrease/(increase) in trade and other payables		19	(463)
		<hr/>	<hr/>
Cash generated from operations		6,068	392
Cash flows from investing activities			
Acquisition of property, plant and equipment	7	(399)	(1,656)
Net Interest received		405	392
Income taxes paid		-	(812)
		<hr/>	<hr/>
Net cash generated from/(used in) investing activities		(14)	(2,076)
Cash flows from financing activities			
Repayment of lease liabilities		(336)	-
		<hr/>	<hr/>
Net cash generated from/(used in) financing activities		(336)	-
		<hr/>	<hr/>
Net increase in cash and cash equivalents		5,738	(1,684)
Cash and cash equivalents at 1 January		47,414	49,098
		<hr/>	<hr/>
Cash and cash equivalents at 31 December	12	53,152	47,414
		<hr/>	<hr/>

The notes on pages 12-39 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 2019 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 financial statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons.

As noted on page 1 the Company manufactures power transmission belting for automotive, white goods and engineering industries which are used by other members of the Continental Group.

The company is a member of the UK cash pooling facility managed by Continental UK Group Holdings Limited whereby the cash balance of the Company is swept in to an intercompany bank account on a daily basis. To the extent that working capital requirements arise these are met through access to the cash pooling facility. The Company is cash generative and continues to hold an intercompany receivable balance as at the date of approval of these financial statements.

The Directors have prepared cash flow forecasts for a period of thirteen months from the date of approval of these financial statements.

The base case forecasts through to 31 December 2021 have been adjusted to take into account the impact of COVID-19 by reducing growth assumptions.

The Directors have also considered a severe but plausible downside forecast as a result of COVID-19, including a reduction in orders, no growth for the remainder of 2020 and a gradual phased recovery to pre-COVID-19 levels through 2021. Even in the severe but plausible downside scenario, the Company remains profitable and will continue to have sufficient liquidity through the cash pooling facility to manage working capital and will be able to meet its liabilities as they fall due.

Consequently, the directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least thirteen months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

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.

Notes (continued)

1 Accounting policies (continued)

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.

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:

Buildings	-	10 years
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:

Software development	-	3 years
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Financial instruments

(i) Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss ("FVTPL"), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

Financial assets

(a) Classification

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL.

Notes (continued)

1 Accounting policies (continued)

Financial instruments (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

(b) Subsequent measurement and gains and losses

Financial assets at FVTPL - these assets (other than derivatives designated as hedging instruments) are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

Financial assets at amortised cost - These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Equity investments at FVOCI - these assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

Financial liabilities and equity

Financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and
- (b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

(iii) Impairment

The Company recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost, debt investments measured at FVOCI and contract assets (as defined in IFRS 15).

The Company measures loss allowances at an amount equal to lifetime ECL, except for other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition which are measured as 12-month ECL.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECL

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company considers a financial asset to be in default when:

Notes (continued)

1 Accounting policies (continued)

Financial instruments (continued)

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- the financial asset is more than 120 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Write-offs

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

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 5th 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.

Notes (continued)

1 Accounting policies (continued)

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.

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.

Leases (policy applicable from 1 January 2019)

The Company has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17.

At the inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. IFRS 16.

Notes (continued)

1 Accounting policies (continued)

Leases (continued)

As a lessee

The Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price and the aggregate stand-alone price of the non-lease components.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise,
- lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and
- penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, to the extent that the right-of-use asset is reduced to nil, with any further adjustment required from the remeasurement being recorded in profit or loss.

The Company presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in 'loans and borrowings' in the statement of financial position.

Short-term leases and leases of low-value assets

The Company has elected not to recognise right-of-use assets and lease liabilities for lease of low-value assets and short-term leases. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term. 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.

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:

- Amendments to IAS 1 and IAS 8: Definition of Material (effective date 1 January 2020).
- Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform (effective date to be confirmed).

Notes (continued)

2 Other (expense) and income

	2019 £000	2018 £000
Equalisation Commission	382	854
Employer Pension Contribution	(4,106)	(7,962)
	<u>(3,724)</u>	<u>(7,108)</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	
	2019	2018
Production	106	116
Selling and distribution	38	38
Administration	18	15
	<u>162</u>	<u>169</u>

The aggregate payroll costs of these persons were as follows:

	2019 £000	2018 £000
Wages and salaries	6057	6,486
Social security costs	517	597
Other pension costs	772	742
	<u>7,346</u>	<u>7,825</u>

Directors' remuneration

	2019 £000	2018 £000
Directors' emoluments	217	221
Pension contributions	46	43
	<u>263</u>	<u>264</u>

The aggregate emoluments of the highest paid director were £127,949 (2018: £122,988) and company pension contributions of £25,456 (2018: £23,856) were made to a defined contribution scheme on his behalf.

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

	Number of directors	
	2019	2018
Retirement benefits are accruing to the following number of directors under:		
Defined contribution schemes	<u>2</u>	<u>2</u>

Notes (continued)

4 Operating Profit

Operating profit before tax is stated after charging:

	2019 £000	2018 £000
Auditor's remuneration:		
Audit of the Company	27	26
Depreciation of tangible fixed assets	1,095	519
Amortisation of intangible assets	3	3
Hire of other assets – short term and low value leases	74	504
	<u> </u>	<u> </u>

5 Financial (Expense)/Income

	2019 £000	2018 £000
Interest income on financial assets	485	452
IFRS 16 lease interest	(40)	-
Net foreign exchange loss	(60)	(60)
	<u> </u>	<u> </u>
Financial Income	<u>385</u>	<u>392</u>

Notes (continued)

6 Taxation

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

	2019 £000	2018 £000
UK Corporation tax at (2018: 20%):		
Current year	771	812
Adjustment in respect of prior years	(419)	-
	<hr/>	<hr/>
Total current tax charge for the year	352	812
Deferred tax	370	20
	<hr/>	<hr/>
Total tax charge	723	832
	<hr/>	<hr/>

The current tax charge for the year is (2018: lower) than the standard rate of corporation tax in the UK of 19% (2019: 19 %). The differences are explained below:

	2019 £000	2018 £000
Current tax reconciliation		
Profit on ordinary activities before taxation	5,166	1,666
	<hr/>	<hr/>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19% (2018: 19 %)	982	317
Effects of:		
Expenses not deductible for tax	11	4
Income not taxable	-	-
Additional deduction for R&D expenditure	-	-
Adjustment in respect of prior period	(247)	-
Adjustment in respect of prior period - deferred tax	-	-
Tax rate changes	(23)	-
Pension contributions	-	491
	<hr/>	<hr/>
Current tax in income statement	723	812
	<hr/>	<hr/>

In the spring budget 2020, the Government announced that from 1 April 2020 the corporation tax would remain at 19% rather than reducing to 17% as previously enacted. This new law was substantially enacted on 17 March 2020 and has been applied to these accounts.

Notes *(continued)*

7 Property, plant and equipment

	Land & Buildings	Plant and machinery £000	Fixtures, fittings tools and equipment £000	Total £000
<i>Cost</i>				
Balance at 1 January 2018	-	13,481	468	13,949
Additions	-	1,655	60	1,715
Transfers from Group	-	-	-	-
Disposals	-	(196)	-	(196)
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December 2018	-	14,940	528	15,468
At 1 January 2019				
Recognition of right-of-use asset on initial application of IFRS 16 (Note 23)	702	104	233	1039
Balance at 1 January 2019	702	15,044	761	16,507
Additions	4,176	353	42	4,571
Disposals	(589)	-	-	(589)
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December 2019	4,289	15,397	803	20,489
<i>Depreciation</i>				
Balance at 1 January 2018	-	11,534	328	11,862
Charge for the year	-	483	36	519
Transfers from Group	-	-	-	-
Disposals	-	(136)	-	(136)
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December 2018	-	11,881	364	12,245
Balance at 1 January 2019	-	11,881	364	12,245
Charge for the year	366	529	200	1,095
Transfers from Group	-	-	-	-
Disposals	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December 2019	366	12,410	564	13,340
<i>Net book value</i>				
At 1 January 2018	-	1,947	140	2,087
At 31 December 2018 and 1 January 2019	702	3,163	397	4,262
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2019	3,923	2,987	239	7,149

Notes (continued)

8 Intangible assets

	Software Development £000	Total £000
<i>Cost</i>		
Balance at 1 January 2019 and 31 December 2018	254	254
Additions	4	4
Balance at 31 December 2019	258	258
<i>Amortisation and impairment</i>		
Balance at 1 January 2019 and 31 December 2018	251	251
Charge for the year	3	3
Balance at 31 December 2019	254	254
<i>Net book value</i>		
Balance at 1 January 2019 and 31 December 2018	3	3
Balance at 31 December 2019	4	4

9 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributed to the following:

	Assets		Liabilities		Net	
	2019 £000	2018 £000	2019 £000	2018 £000	2019 £000	2018 £000
Property, plant and equipment	13	68	-	-	13	68
Timing differences	-	316	-	-	-	316
Net tax assets	13	384	-	-	13	384

Movement in temporary differences during the year

	Balance at 1 January 2019 £000	Recognised in Income statement £000	Balance at 31 December 2019 £000
Property, plant and equipment	68	(55)	13
Provisions	316	(316)	-
Total assets	384	(371)	13

Notes *(continued)*

9 Deferred tax assets and liabilities *(continued)*

Movement in temporary differences during the prior year

	Balance at 1 January 2018 £000	Recognised in Income statement £000	Balance at 31 December 2018 £000
Property, plant and equipment	68	-	68
Provisions	336	(10)	316
Total assets	404	254	384

10 Inventories

	2019 £000	2018 £000
Raw materials and consumables	1,076	707
Work in progress	109	168
Finished goods	527	655
	1,712	1,530

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

Included within inventories is £1,712,000 (2018: £1,530,000) expected to be recovered in more than 12 months.

Notes (continued)

11 Trade and other receivables

	2019 £000	2018 £000
Receivables due from affiliates	54,261	48,693
Trade receivables net of impairment loss recognised	1,163	1,460
	<hr/>	<hr/>
Other receivables	55,424	50,153
Prepayments and accrued income	326	288
	121	45
	<hr/>	<hr/>
	55,871	50,486
	<hr/>	<hr/>

12 Cash and cash equivalents

	2019 £000	2018 £000
Bank balances (petty cash)	-	1
Finance account with Continental UK Group Holdings Limited	53,152	47,313
	<hr/>	<hr/>
Cash and cash equivalents in the statement of cash flows	53,152	47,314
	<hr/>	<hr/>

The finance account with Continental UK Group Holdings is shown within 'receivables due from affiliates' as disclosed in note 11.

13 Trade and other payables

	2019 £000	2018 £000
Payables due to affiliates	161	263
Trade payables	1,697	1,528
Corporation tax	771	419
Accruals and deferred income	1,091	1,139
Lease Liabilities (current)	522	-
	<hr/>	<hr/>
	4,242	3,349
	<hr/>	<hr/>

Notes (continued)

14 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 separate trustee administered fund holding the pension plan assets to meet long term pension liabilities for some 752 members as at 5 April 2018. 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 2018 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.

For the purposes of IAS19 the actuarial valuation as at 5 April 2018 which was carried out by a qualified independent actuary, has been updated on an approximate basis to 31 December 2019. There have been no changes in the valuation methodology adopted for this period's disclosures compared to the previous period's disclosures.

The company has actioned a 'buy in' of the defined benefit scheme within the year. Investigations are ongoing with regard any possible 'buy out' and there has been no commitment made to 'buy out' the defined benefit scheme at date of signing the Financial Statements.

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.

Significant actuarial assumptions (expressed as weighted averages):

	2019	2018	2017
Discount rate for liabilities	2.00%	2.80%	2.45%
Rate of increase for pensions in payment and deferred pensions- RPI 5% / CPI 5%	3.10%/2.25%	3.25%/2.35%	3.25%/2.35%

The mortality assumptions adopted at 31 December 2019 are 110% of the standard tables S2PxA, Year of Birth, no age rating for males and females, projected using CMI_2018 converging to 1.25% p.a. These imply the following life expectancies:

	Life expectancy at age 65 years
Male retiring in 2019	21.0
Female retiring in 2019	22.9
Male retiring in 2039	22.4
Female retiring in 2039	24.5

All actuarial gains and losses will be recognised in the year in which they occur in the Other Comprehensive Income (OCI). The unrecognised gains and losses will be treated as an adjustment to shareholder equity.

Notes (continued)

14 Employee benefits (continued)

The group scheme has the following positions:

	2019 £'000	2018 £'000	2014 £'000
Fair value of plan assets	125,505	137,930	134,062
Present value of defined benefit obligations	(128,928)	(116,438)	(123,657)
Surplus/(deficit) in scheme	(3,423)	21,492	10,405
Asset/(liability) to be recognised	(3,423)	21,492	10,405
Deferred Tax	582	(3,654)	(1,769)
Net asset/(liability) to be recognised	(2,841)	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 £128,928,000.

Notes (continued)

14 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 2019.

	2019 £'000	2018 £'000
Defined benefit obligation at start of period	116,438	123,657
Current service cost	-	116
Expenses	529	191
Interest cost	3,195	2,954
Contributions by plan participants	-	-
Actuarial (gains)/loss due to scheme experiences	26	1,735
Actuarial (gains) due to changes in demographic assumptions	(1,119)	(721)
Actuarial (gains)/loss due to changes in financial assumptions	15,097	(7,131)
Benefit paid, death in service premiums and expenses	(5,238)	(6,534)
Past service costs	-	2,171
(Gains)/losses on curtailments	-	-
Defined benefit obligation at end of period	128,928	116,438

There have been curtailments or settlements in the accounting period.

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

	2019 £'000	2018 £'000
Fair value of plan assets at start of period	137,930	134,062
Interest income	3,796	3,406
Return on plan assets(excluding amounts included in interest income)	(11,453)	(3,925)
Contributions by the Company	470	10,921
Contributions by plan participants	-	-
Benefit paid, death in service premiums and expenses	(5,538)	(6,534)
Fair value of plan assets at end of period	125,505	137,930

The actual return on the plan assets over the period ending 31 December 2019 was (£7,657,000).

Notes *(continued)*

14 Employee benefits *(continued)*

Pension plans *(continued)*

Defined benefit costs recognised in profit or loss

	2019 £'000	2018 £'000
Service cost:		
Current service cost	-	116
Past service cost and loss/(gain) from settlements	-	2,171
Expenses	529	191
Net interest cost	(601)	(452)
	<hr/>	<hr/>
Fair value of plan assets at end of period	(72)	2,026
	<hr/>	<hr/>

Defined Benefit cost recognised in other comprehensive income

	2019 £'000	2018 £'000
Return on plan assets (excluding amounts included in interest income)	(11,453)	(3,925)
Experience gains and losses arising on the defined benefit obligation gain	(26)	(1,735)
Effects of changes in the demographic assumptions underlying the present value of the defined benefit obligation gain	1,119	721
Effects of changes in the financial assumptions underlying the present value of the defined benefit obligation gain/(loss)	(15,097)	7,131
Total actuarial gains and losses (before restriction due to some of the surplus not being recognisable) gain.(loss)	(25,457)	2,192
	<hr/>	<hr/>
Total actuarial gains and losses (before restriction due to some of the surplus not being recognisable) gain.(loss)	(25,457)	2,192

Notes (continued)

14 Employee benefits (continued)

Pension plans (continued)

Assets

	2019	2018	2017
	£'000	£'000	£'000
Fixed Income/Debt Securities	-	47,945	50,488
Diversified Growth Funds (Equity)	-	10,622	11,270
Cash	9,478	5,971	491
Absolute Return Strategy (Equity)	-	25,345	25,746
Insured Policies	126,478	48,047	46,067
Loan from company	(10,451)	-	-
Total Assets	125,505	137,930	134,062

None of the fair values of the assets shown above include any direct investments in the company's own financial instruments or any property occupied by, or other assets used by, the Company. A subset of the assets of the scheme have now been secured with Aviva.

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.

There are no asset-liability matching strategies currently being used by the plan.

ContiTech UK contributions to the defined benefit plan

Pension costs for the defined benefit scheme amounted to £4,221,728 (2018: £7,989,473). There were no outstanding contributions at year end.

Defined contribution scheme

Pension costs for the defined contribution scheme amounted to £656,000. There were no outstanding contributions at year end.

Notes (continued)

15 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 2018	1,000	50,445	51,445
Total recognised income and expense	-	834	834
	<hr/>	<hr/>	<hr/>
Balance at 31 December 2018	1,000	51,278	52,278
	<hr/>	<hr/>	<hr/>
Balance at 1 January 2019	1,000	51,278	52,278
Total recognised income and expense	-	4,444	4,444
	<hr/>	<hr/>	<hr/>
Balance at 31 December 2019	1,000	55,722	56,722
	<hr/>	<hr/>	<hr/>
Share capital		2019	2018
		£000	£000
1,000,000 ordinary shares of £1 each		1,000	1,000
		<hr/>	<hr/>

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)

16 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 Group's financial assets and liabilities are principally short-term in nature, and therefore their fair value is not materially different from their carrying value. The valuation method for the Company's financial assets and liabilities can be defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All investments fall under Level 3 as the fair value is measured using the latest unquoted share price of recent transactions, with updates made as required considering market conditions at year end. All other financial assets and liabilities are held at amortised cost and other financial liabilities respectively in accordance with IFRS 9. There have been no transfers between levels in the year.

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

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)

16 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:

	2019 £000	2018 £000
United Kingdom	385	348
Rest of world	778	1,112
Total	1,163	1,460

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

	2019 £000	2018 £000
Automotive	2	3
White Goods	1,105	1,458
Industrial Goods	58	27
Sub Total	1,165	1,488
<i>Less Allowance</i>		
Automotive	-	-
White Goods	(2)	(26)
Industrial Goods	-	(2)
	(2)	(28)
<i>Net position</i>		
Automotive	2	3
White Goods	1,103	1,432
Industrial Goods	58	25
Total	1,163	1,460

Notes (continued)

16 Financial instruments (continued)

Credit risk (continued)

The most significant customer accounts for £678,857 of the trade receivables carrying value at 31 December 2019.

The ageing of trade debtors as at 31 December was:

	2019			2018		
	Gross £000	Impairment Allowance £000	Net £000	Gross £000	Impairment Allowance £000	Net £000
Not past due	1,004	-	1,004	1,318	(10)	1,308
Past due 1-29 days	158	(2)	156	139	(15)	124
Past due 30-90 days	1	-	1	-	-	-
Past due 91-120 days	2	-	2	31	(3)	28
Past due >121 days	-	-	-	-	-	-
	<u>1,165</u>	<u>(2)</u>	<u>1,163</u>	<u>1,488</u>	<u>(28)</u>	<u>1,460</u>

Impairment allowance

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

	2019 £000	2018 £000
Balance at 1 January	28	53
Increase/(release) of impairment allowance	(26)	(25)
Balance at 31 December	<u>2</u>	<u>28</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 allowance is calculated using expected credit loss-rates which are applied depending on the age of the debt. The expected credit loss-rates are calculated centrally by Corporate Accounting once a year based on historical and forward looking information. The company's policy is to impair all balances in line with these issued loss rates.

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 £53,535,000.

Notes (continued)

16 Financial instruments (continued)

Liquidity risk

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 2019.

	Carrying value	2019 Contractual £000			
		Cashflows	< 6 months	6-12 months	1-2 years
Trade payables	1,697	(1,697)	(1,697)	-	-
Payables to affiliates	161	(161)	(161)	-	-
Accruals	1,091	(1,091)	(1,091)	-	-

	Carrying value	2018 Contractual £000			
		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>

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)

16 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 2019	Sterling £000	Euro £000	US Dollar £000	Other £000	Total £000
Cash and Cash equivalents	-	-	-	-	-
Trade receivables	375	783	2	3	1,163
Receivables due from affiliates	52,654	1,202	405	-	54,261
Trade payables	1,311	386	-	-	1,697
Payables due to affiliates	159	2	-	-	161
Balance sheet exposure	54,499	2,373	407	3	57,282
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
Balance sheet exposure	49,100	1,825	1,017	3	51,945

The following significant exchange rates applied during the year:

	2019 Average rate	2018 Average rate	2019 Year end mid-spot rate	2018 Year end mid-spot rate
Euro €1 = £	0.8775	0.8846	0.8515	0.8859
US Dollar \$1 = £	0.7838	0.7481	0.7591	0.7611

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)

16 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 2019 amounted to £56,719,000. 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.

17 Leases

Right-of-use assets

Right-of-use assets related to lease properties that do not meet the definition of investment properties are presented as property, plant and equipment (see note 7):

	Land and buildings £000	Plant and equipment £000	Fixtures & Fittings £000	Total £000
Balance at 1 January 2019	702	104	233	1,039
Additions to right-of-use assets	4,176	-	-	4,176
Depreciation charge for the year	(366)	(83)	(151)	(600)
Derecognition of right-of-use assets	(589)	-	-	(589)
Balance at 31 December 2019	3,923	21	82	4,026

Amounts recognised in profit or loss

The following amounts have been recognised in profit or loss for which the Company is a lessee:

	£000
2019 - Leases under IFRS 16	
Interest expense on lease liabilities	(40)
Expenses relating to short-term leases	(32)
Expenses relating to leases of low-value assets accounted, excluding short-term leases of low-value assets	(42)
	£000
2018 - Operating leases under IAS 17	
Lease expense	(228)
Contingent rent expense	(282)
Sub-lease income presented in 'other revenue'	-
	(510)

Amounts recognised in statement of cash flows

	2019 £000
Total cash outflow for leases	(336)

18 Contingencies

The company has entered into a joint agreement with Continental UK Group Holdings Limited to cross-guarantee bank overdrafts as part of the UK group cash pooling arrangements.

Notes (continued)

19 Related parties

Affiliated companies

During the years ended 31 December 2019 and 31 December 2018 the following related party transactions and balances exist with affiliated Continental companies.

	2019 £000	2018 £000
Transactions		
Purchase of goods	4,994	5,041
Sales of goods	20,623	21,180
Interest received	464	452
Recharges of expenses	822	779
	<hr/>	<hr/>
Year end balances		
<i>Within trade and other receivables</i>		
CT Fluid Romania	1	-
CT USA	402	920
ContiTech Antriebssysteme GmbH	662	320
TIC Italy	-	-
ContiTech Brasil	44	40
CT AG	-	-
CT Romania	-	-
Continental UK Group Holdings	53,152	47,413
Conti India	-	-
Dan Belt	-	-
	<hr/>	<hr/>
	54,261	48,693
<i>Within trade and other payables</i>		
CT Vibration Control GmbH	(113)	(116)
CT Automotive Trading	(8)	-
CT Slovenja	(1)	-
ContiTech China	(30)	(102)
Continental AG	(1)	-
CT Anoflex	(8)	(2)
CT Aftermarket	-	(35)
CT Automotive Romania	-	(6)
CT Conveyor	-	(3)
	<hr/>	<hr/>
	(161)	(263)
	<hr/>	<hr/>
	54,100	48,430
	<hr/>	<hr/>

Consideration for all transactions is physical cash.

20 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 Nederland 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.

Notes (continued)

21 Change in significant accounting policies

The Company has applied IFRS 16 using the modified retrospective with cumulative effect method – i.e. by recognising the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of equity at 1 January 2019. Therefore, the comparative information has not been restated and continues to be reported under IAS 17. The disclosure requirements in IFRS 16 have not been applied to comparative information. The details of the changes and quantitative impact are set out below.

23 (a) Definition of a lease

Previously the Company determined at contract inception whether an arrangement was or contained a lease under IFRIC 4: Determining whether an Arrangement contains a Lease. The Company now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in note 1. On transition, the Company has reassessed all contracts to assess whether they contain a lease based upon this definition.

34 (b) As a lessee

The Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company. Only finance leases were then recognised on the balance sheet.

Under IFRS 16, the Company recognises right-of-use assets and lease liabilities for most of these leases – i.e. these leases are on-balance sheet.

Leases classified as operating leases under IAS 17

On transition, for operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at 1 January 2019.

Right-of-use assets were measured at :

- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments: the Company applied this approach to all other leases.

The Company used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular these were:

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low value assets (e.g. IT equipment);
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term.

Leases classified as finance leases under IAS 17

For these finance leases, the carrying amount of the right-of-use asset was determined at the carrying amount of the lease asset under IAS 17 at 31 December 2018. There was no change made to the lease liability.

Notes (continued)

21 Change in significant accounting policies (continued)

When measuring the lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 1.2%.

The following table summarises the difference between the operating lease commitments disclosed under IAS 17 at 31 December 2018 in the Company's financial statements and the lease liabilities recognised at 1 January 2019:

	1 January 2019
	£000
Operating lease commitments at 31 December 2018 as disclosed under IAS 17	1,535
Correction to forecasted operating lease commitments as at 31 December 2018	(500)
Discounted using the incremental borrowing rate at 1 January 2019	(70)
Recognition exemption for leases of low-value assets	42
Recognition exemption for leases with less than 12 months of lease term at transition	32
Lease liabilities recognised as at 1 January 2019	1,039

22 Subsequent Events

Subsequent to the balance sheet date the outbreak of COVID-19 resulted in government enforced lock-downs across the UK and Europe. As noted on page 1 the factory has remained open throughout the pandemic. The Directors expect this to be the case throughout 2021. However, the Directors will continue to assess the impact of the outbreak on the operational and financial performance of the Company.

There were no other events subsequent to the balance sheet date.