

Freudenberg Sealing Technologies Limited

Report and Financial Statements

For the period ended 31 December 2017

Registered No. 10346611



Directors

P R C Johnson
L Neuwinger-Heimes
D Schaefer

Auditors

Ernst & Young LLP
Citygate
St James' Boulevard
Newcastle upon Tyne
NE1 4JD

Bankers

Barclays Bank plc
PO Box 190
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1 Park Row
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Solicitors

Spearing Waite LLP
34 Pocklington Walk
Leicester
LE1 6BU

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34 Pocklington Walk
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Strategic report

Review of the business

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

2017 performance

Turnover was strong at £56,713,284. The company recorded a profit after tax of £1,230,600, this profit was driven largely by strong turnover.

Company position at 31 December 2017

Most major balance sheet items remained relatively stable compared to prior year. The balance on the Freudenberg Pension fund has changed from a deficit of £3,046,428 at 31 December 2016 to a surplus of £6,428,132 at 31 December 2017. There were two significant investments in subsidiary's during the year with the acquisition of Metflex Holding Company Limited and Corteco Limited for a total of £21,833,577.

Key performance indicators

- o Profitability – net profit margin 2%
- o Growth – turnover increased by 15% (compared to performance in the prior year within Freudenberg Technical Products LP) largely due to new business wins and exchange rate impacts.

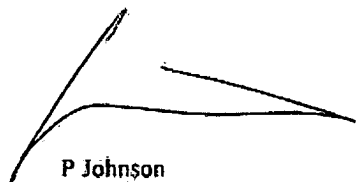
Principal risks and uncertainties

The principal risks faced by the business are:

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

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

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



P Johnson

Director

28 February 2018

Directors' report

The company was incorporated on 25 August 2016, the directors present their report and the financial statements for the 16 month period ended 31 December 2017.

Principal activity

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

Results and dividends

The profit for the period after tax amounted to £1,230,600. The directors do not recommend a distribution of profits.

Future developments

The directors aim to maintain the management policies which have resulted in the business's growth in recent years (both within the previous entity of a limited partnership and in its current format of this company). They consider that the next year will show a further significant growth in sales from continuing operations, particularly of exports into Europe from the newly developed materials.

Directors

The directors at 31 December 2017 were as follows:

P R C Johnson	(appointed 25 August 2016)
L Neuwinger-Heimes	(appointed 25 August 2016)
D Schaefer	(appointed 25 August 2016)

Financial risk management policy

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

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

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

Interest rate risk

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

Price risk

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

Credit risk

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

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

Directors' report

Foreign currency risk

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

Research and development

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

Disabled employees

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

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

Employee involvement

The company operates a framework for employee information and consultation which complies with the requirements of the Information and Consultation of Employees Regulations 2004. During the year, the policy of providing employees with information about the group has been continued through the newsletter 'Sealing World' and the "Freudenberg" magazines. Regular meetings are held between local management and employees to allow a free flow of information and ideas. Employees participate directly in the success of the business through the company's bonus schemes.

Political and charitable contributions

Charitable contributions of £6,982 were made in the period.

Going concern

The directors have satisfied themselves that the company can continue to pay its liabilities as they fall due for the period of at least 12 months from the date of approval of these financial statements. The financial statements are therefore prepared on a going concern basis.

Disclosure of information to auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the director's auditor, each director has taken all the steps that he is obliged to take as a director in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

By order of the directors



P MacDougall

Secretary

28 February 2018

Statement of directors' responsibilities

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

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

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

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

Independent auditors' report

to the members of Freudenberg Sealing Technologies Limited

Opinion

We have audited the financial statements of Freudenberg Sealing Technologies Limited for the period ended 31 December 2017 which comprise the Profit and Loss Account, the Balance Sheet and the Statement of changes in equity and the related notes 1 to 23, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2017 and of its profit for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Independent auditors' report

to the members of Freudenberg Sealing Technologies Limited

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 5 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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.

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



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

28 February 2018

Income statement

for the 16 month period ended 31 December 2017

		16 month period ended 31 December 2017 £
	Note	
Turnover	2	56,713,284
Cost of sales		(47,729,292)
Gross profit		8,983,992
Administrative expenses		(7,522,737)
Operating profit	3	1,461,255
Profit on disposal of tangible fixed assets		34,116
Interest payable and similar charges	5	(257,115)
Profit before taxation		1,238,256
Tax charge on profit	7	(7,656)
Profit for the financial period		1,230,600

The operating result for the current period arises from continued operations. All activities were acquired on 1 January 2017.

Statement of other comprehensive income

for the 16 month period ended 31 December 2017

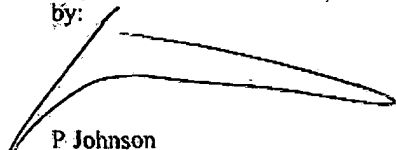
		16 month period ended 31 December 2017 £
	Note	
Profit for the financial period		1,230,600
Other comprehensive income:		
Items that cannot be reclassified to profit or loss:		
Remeasurement gains on defined benefit pension plan	18	9,560,560
Deferred Tax on remeasurement gains		
- On balance on pooling of interests		578,821
- On remeasurement gains in the year		(1,816,506)
Items that can be reclassified to profit or loss:		
Deferred Tax arising on pooling of interests		(37,721)
Other comprehensive income for the period		8,285,154
Total comprehensive income for the period		9,515,754

Balance sheet

at 31 December 2017

	Note	2017 £
Fixed assets		
Intangible assets	8	-
Tangible assets	9	9,551,108
Investments	10	21,833,579
		<u>31,384,687</u>
Current assets		
Stocks	11	5,504,162
Debtors	12	11,790,176
Cash at bank and in hand		1,913
		<u>17,296,251</u>
Creditors: amounts falling due within one year	13	(21,385,101)
Net current liabilities		<u>(4,088,850)</u>
Total assets less current liabilities		<u>27,295,837</u>
Provisions for liabilities and charges	13,14	(1,308,215)
Pension surplus	18	6,428,132
Net assets		<u><u>32,415,754</u></u>
Capital and reserves		
Called up equity share capital	15	22,900,000
Profit and loss account	16	9,515,754
Shareholders' funds		<u><u>32,415,754</u></u>

The financial statements were approved by the directors on 28 February 2018 and were signed on its behalf by:



P. Johnson
Director

Statement of changes in equity

for the 16 month period ended 31 December 2017

	Share capital £	Profit and loss account £	Total £
Shares issued	22,900,000	-	22,900,000
Profit for the financial period	-	1,230,600	1,230,600
Other comprehensive income	-	8,285,154	8,285,154
At 31 December 2017	22,900,000	9,515,754	32,415,754

Notes to the financial statements

at 31 December 2017

1. Accounting policies

Statement of Compliance

Freudenberg Sealing Technologies Limited is a limited liability company, limited by shares, incorporated and domiciled in England. The Registered Office is c/o Spearing Waite LLP, 34 Pocklingtons Walk, Leicester, LE1 6BU.

The financial statements of Freudenberg Sealing Technologies Limited (the "company") for the 16 month period ended 31 December 2017 were authorised for issue by the directors and the balance sheet was signed on the directors' behalf by P Johnson.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with applicable accounting standards. The Company's financial statements are presented in GBP Sterling.

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

Fundamental accounting concept

The financial statements have been prepared on a going concern basis which assumes that the company will continue in operational existence for the foreseeable future and meet its liabilities as they fall due.

The company has net current liabilities of £4,088,850 including amounts owed to other group undertakings of £16,234,301. Freudenberg SE has agreed to provide sufficient funds to the company to enable it to meet its liabilities as they fall due and has confirmed the availability of such support for a minimum of 12 months from the date of approval of these financial statements.

In view of the circumstances referred to above, the directors are satisfied that financial support will be available to the company for the foreseeable future. Accordingly, the directors of the company believe that it is appropriate to adopt the going concern basis in preparing the financial statements.

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

Basis of preparation

The accounting policies which follow set out those policies which apply in preparing the financial statements for the period ended 31 December 2017. The Company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of IFRS 7 Financial Instruments: Disclosures;
- the requirements of paragraphs 91 to 99 of IFRS 13 Fair Value Measurement;
- the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:
 - paragraph 79(a)(iv) of IAS 1; and
 - paragraph 73(c) of IAS 16 Property, Plant and Equipment;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D and 111 of IAS 1 Presentation of Financial Statements;
- the requirements of paragraphs 134 to 136 of IAS 1 Presentation of Financial Statements;
- the requirements of IAS 7 Statement of Cash Flows;

Notes to the financial statements

at 31 December 2017

1. Accounting policies (continued)

Basis of preparation (continued)

- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements of paragraphs 17 and 18A of IAS 24 Related Party Disclosures;
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group;
- the requirements of paragraphs 118(e) of IAS 38 Intangible Assets
- the requirements of paragraphs 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 Impairments of Assets.

Judgements and key sources of estimation uncertainty

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

The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements:

- Pension benefits

The costs of the defined benefit pension plan are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long term nature of the plan, such estimates are subject to significant uncertainty. Further details are given in note 18.

- Provisions

A provision is recognised when the company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. There can be estimation involved in determining the provision to be made.

Other significant accounting policies

Fixed assets and depreciation

Plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Cost comprises the aggregate amount paid and the fair value of any other consideration given to acquire the asset and includes costs directly attributable to making the asset capable of operating as intended. Borrowing costs directly attributable to assets under construction and which meet the recognition criteria in IAS 23 are capitalised as part of the cost of that asset.

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

Plant and machinery	- 13-15 years
Fixtures and fittings	- 15 years
Tooling	- 5 years
Office equipment	- 5 years

The carrying values of property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable, and are written down immediately to their recoverable amount. Useful lives and residual values are reviewed annually and where adjustments are required these are made prospectively.

Notes to the financial statements

at 31 December 2017

1. Accounting policies (continued)

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

Intangible fixed assets

Licenses are capitalised as intangible fixed assets at cost and are amortised over the life of the license.

Investments

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

Foreign currencies

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

Transactions in foreign currencies are initially recorded in the entity's functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

Provisions for liabilities

A provision is recognised when the Company has a legal or constructive obligation as a result of a past event; it is probable that an outflow of economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation. If the effect is material, expected future cash flows are discounted using a current rate that reflects, where appropriate, the risks specific to the liability.

Where the company expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when recovery is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. Where discounting is used, the increase in the provision due to unwinding the discount is recognised as a finance cost.

Leases

Leases where the lessor retains a significant portion of the risks and benefits of ownership of the asset are classified as operating leases and rentals payable are charged in the income statement on a straight line basis over the lease term.

Trade and other debtors

Trade debtors, which generally have 30-90 day terms, are recognised and carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, receivables are carried at amortised cost. Provision for impairment is made through profit or loss when there is objective evidence that the Company will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

Stocks

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

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

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

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

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

Sale of goods

Notes to the financial statements

at 31 December 2017

1. Accounting policies (continued)

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on dispatch of the goods.

Cash at bank and in hand

Cash and short term deposits in the balance sheet comprise cash at banks and in hand and short term deposits with an original maturity of three months or less.

Research and development expenditure

Research costs are expensed as incurred.

Taxation

Income taxes

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date. Deferred income tax assets and liabilities are offset, only if a legally enforcement right exists to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the company to make a single net payment.

Income tax is charged or credited to other comprehensive income if it relates to items that are charged or credited to other comprehensive income. Similarly, income tax is charged or credited directly to equity if it relates to items that are credited or charged directly to equity. Otherwise income tax is recognised in the income statement.

Post retirement benefits

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

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined benefit obligation) and is based on actuarial advice. Past service costs are recognised in profit or loss. When a settlement (eliminating all obligations for benefits already accrued) or a curtailment (reducing future obligations as a result of a material reduction in the scheme membership or a reduction in future entitlement) occurs, the obligation and related plan assets are remeasured using current actuarial assumptions and the resultant gain or loss recognised in the income statement during the period in which the settlement or curtailment occurs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset, both as determined at the start of the annual reporting period, taking account of any changes in the net defined benefit liability during the period as a result of contribution and benefit payments. The net interest is recognised in profit or loss as other finance revenue or cost.

Notes to the financial statements

at 31 December 2017

1. Accounting policies (continued)

Remeasurements, comprising actuarial gains and losses, the effect of the asset ceiling and the return on the net assets (excluding amounts included in net interest), are recognised immediately in other comprehensive income in the period in which they occur.

The defined benefit pension asset or liability in the balance sheet comprises the total of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), less the fair value of plan assets out of which the obligations are to be settled directly. Fair value is based on market price information and in the case of quoted securities is the published bid price. The value of a net pension benefit asset is restricted to the present value of any amount the Company expects to recover by way of refunds from the plan or reductions in the future contributions.

2. Turnover

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

	<i>16 month period ended 31 December 2017 £</i>
European Community	46,661,506
Rest of Europe	1,791,005
North America	4,759,102
Latin America	512,306
Japan and the Far East	2,897,346
Australia, Oceania	-
Africa	92,019
	<u>56,713,284</u>

3. Operating profit

This is stated after charging/(crediting):

	<i>16 month period ended 31 December 2017 £</i>
Depreciation and other amounts written off tangible fixed assets - owned	1,075,052
Operating leases – hire of other assets	439,650
– land and buildings	446,932
Research and development expenditure	2,487,390
Auditors' remuneration – audit of these financial statements	37,000
Exchange gain	(125,915)
Increase in dilapidation provision (note 13(b))	60,000
Cost of stocks recognised as an expense (included in cost of sales)	25,724,406
Including– write-down of stocks net realisable value	3,164
	<u></u>

Notes to the financial statements

at 31 December 2017

4a. Staff costs

	<i>16 month period ended 31 December 2017 £</i>
Wages and salaries	11,954,722
Social security costs	1,297,779
Pension costs – defined contribution scheme	989,891
	<u>14,242,392</u>

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

	<i>2017 No.</i>
Sales and distribution	34
Administration	46
Production	202
	<u>282</u>

4b. Directors' remuneration

	<i>16 month period ended 31 December 2017 £</i>
Directors' emoluments	245,020
Company contributions paid to defined contribution pension schemes	49,004
	<u>294,024</u>

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

The amounts in respect of the highest paid director are as follows:

	<i>16 month period ended 31 December 2017 £</i>
Remuneration	245,020
Company contributions paid to defined contribution pension schemes	49,004
	<u>294,024</u>

Notes to the financial statements

at 31 December 2017

5. Interest payable and similar charges

	<i>16 month period ended 31 December 2017 £</i>
Other finance charges (see note 18)	(86,000)
Interest payable to group undertakings	(171,115)
	<u>(257,115)</u>

6. Other finance charges

	<i>16 month period ended 31 December 2017 £</i>
Interest cost on pension scheme liabilities	(3,085,000)
Interest income on pension scheme assets	2,999,000
	<u>(86,000)</u>

7. Taxation

a) Tax charge in income statement

	<i>16 month period ended 31 December 2017 £</i>
<i>Current income tax</i>	
UK Corporation tax:	
Corporation tax charge	(154,847)
Total current tax	<u>(154,847)</u>
<i>Deferred tax</i>	
Origination and reversal of timing differences	147,191
Total deferred tax	<u>147,191</u>
Tax charge in income statement	<u>(7,656)</u>

Notes to the financial statements

at 31 December 2017

7. Taxation (continued)

(b) Tax related to items charged or credited to the statement of other comprehensive income

	16 month period ended 31 December 2017 £
<i>Deferred tax</i>	
Remeasurement gains on defined benefit pension plan:	
- On balance on pooling of interests	(578,821)
- On remeasurement gains in the year	1,816,506
Other deferred tax on pooling of interests	37,721
Total deferred tax charged to the statement of other comprehensive income	1,275,406

(c) Factors affecting current tax charge

The tax assessed on the profit for the year is different to the standard rate of corporation tax in the UK of 19.25%. The differences are reconciled below:

	16 month period ended 31 December 2017 £
Profit for the year	1,238,256
Profit multiplied by standard rate of corporation tax in the UK of 19.25%	238,365
Expenses not deductible for tax purposes	45,093
Unrecognised losses used in current year	(273,557)
Rate differences	(2,245)
Total tax charge to the income statement	7,656

(d) Factors that may affect future tax charges:

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

Notes to the financial statements

at 31 December 2017.

8. Intangible fixed assets

	<i>Licences</i>
	£
Cost:	
At 25 August 2016	-
On acquisition	162,682
At 31 December 2017	162,682
Amortisation:	
At 25 August 2016	-
On acquisition	162,682
At 31 December 2017	162,682
Net book value:	
At 31 December 2017	-

9. Tangible assets

	<i>Plant and machinery</i>	<i>Fixtures, fittings and motor vehicles</i>	<i>Assets in course of construction</i>	<i>Total</i>
	£	£	£	£
Cost:				
At 25 August 2016	-	-	-	-
On acquisition	14,554,087	884	1,952,548	16,507,519
Additions	1,092,866	-	1,523,509	2,616,375
Disposals	(545,896)	-	-	(545,896)
Transfers	1,399,746	-	(1,399,746)	-
At 31 December 2017	16,500,803	884	2,076,311	18,577,998
Depreciation:				
At 25 August 2016	-	-	-	-
On acquisition	8,337,156	884	-	8,338,040
Charge for the period	1,074,753	-	-	1,074,753
On disposals	(385,903)	-	-	(385,903)
At 31 December 2017	9,026,006	884	-	9,026,890
Net book value:				
At 31 December 2017	7,474,797	-	2,076,311	9,551,108

Notes to the financial statements

at 31 December 2017

10. Investments

	2017
	£
Cost:	
At 25 August 2016	-
On acquisition	2
Additions	21,833,577
	<u>21,833,579</u>
At 31 December 2017	<u>21,833,579</u>

Details of the investments in which the Company holds 20% or more of the nominal value of any class of share capital at 31 December 2017, are as follows, all of the entities are UK:

<i>Name of company</i>	<i>Holding</i>	<i>Proportion of voting rights and shares held</i>	<i>Nature of Business</i>
<i>Subsidiary undertakings:</i>			
Metflex Holding Company Limited	Ordinary shares	100%	General Industry parts manufacture
Corteco Limited	Ordinary shares	100%	Automotive spares
Freudenberg Technical Products Pension Trust Co Limited	Ordinary shares	100%	Pension scheme trustee

11. Stocks

	2017
	£
Raw materials and consumables	1,119,539
Work in progress	416,537
Finished goods and goods for resale	3,968,086
	<u>5,504,162</u>

12. Debtors

	2017
	£
Trade debtors	10,452,131
Amounts owed by group undertakings:	
– Parent and fellow subsidiary undertakings	872,339
Other debtors	3,601
Prepayments and accrued income	462,105
	<u>11,790,176</u>

Notes to the financial statements

at 31 December 2017

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

	2017 £
Trade creditors	2,036,804
Amounts owed to group undertakings:	
– Parent and fellow subsidiary undertakings	16,234,301
Other taxation and social security costs	552,911
Accruals and deferred income	2,406,238
Corporation Tax Payable	154,847
	<u>21,385,101</u>

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

13(b).Provisions for liabilities and charges

	<i>Dilapidations</i> £	<i>Total</i> £
Balance at 25 August 2016	-	-
On acquisition	120,000	120,000
Addition in the period (note 3)	60,000	60,000
Balance at 31 December 2017	<u>180,000</u>	<u>180,000</u>

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

14. Deferred tax

	£
On 25 August 2016	-
Credited to the profit and loss account (note 7 (a))	(147,191)
Charged to other comprehensive income (note 7(b))	1,275,406
At 31 December 2017	<u>1,128,215</u>
	<u>2017</u> £
Difference between accumulated depreciation and amortisation and capital allowances	32,848
Temporary differences	(125,978)
Defined benefit pension plan	1,221,345
	<u>1,128,215</u>

Notes to the financial statements

at 31 December 2017

15. Issued share capital

	2017	
<i>Allotted, called up and fully paid</i>	<i>No.</i>	<i>£</i>
Ordinary shares of £1,000 each	22,900	22,900,000
On incorporation 22,900 shares, with a nominal value of £22,900,000, were issued fully paid for consideration of £22,900,000 settled in cash.		

16. Reserves

Profit and loss account

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

17. Commitments

Future minimum rentals payable under non-cancellable operating leases are as follows:

	2017		
	<i>Land and buildings</i>	<i>Other</i>	<i>Total</i>
	<i>£</i>	<i>£</i>	<i>£</i>
Not later than one year	342,586	232,879	575,465
In two to five years	1,056,000	212,053	1,268,053
After five years	440,000	-	440,000
	<u>1,838,586</u>	<u>444,932</u>	<u>2,283,518</u>

Future contractually committed capital spend at 31 December 2017 was £433,905.

18. Pension and other post-retirement benefits

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

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

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

Notes to the financial statements

at 31 December 2017

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

The Scheme poses a number of risks to the Company, for example longevity risk, investment risk, interest rate risk and inflation risk. The Trustee is aware of these risks and uses various techniques to control them. For example in 2014, the Trustee, with the support of the Company, took out a buy-in policy to insure the Scheme's pensioner liabilities, thereby removing most of the risks associated with a substantial proportion of the Scheme's liabilities. The Trustee also has a number of internal control policies including a risk register, which are in place to manage and monitor the various risks they face.

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

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

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

	Percentage of plan assets 31 December 2017 %	Fair value at 31 December 2017 £000
Equities	73%	53,007
Bonds	26%	19,143
Other	1%	957
Total market value of assets		73,107
Present value of Scheme liabilities		(66,665)
Surplus in the scheme		6,442

'Other' above, is largely cash on hand.

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

There are two contributors to the pension scheme, Freudenberg Sealing Technologies Limited and Corteco Limited. The share of the deficit attributable to Freudenberg Sealing Technologies Limited and included on the company's balance sheet is £6,428,132.

The amount recognised in comprehensive income are:

	2017 £000
Net interest payable	86
Freudenberg Sealing Technologies Limited share (note 6)	86

Notes to the financial statements

at 31 December 2017

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

<i>Remeasurements of the net liability:</i>	
Return on scheme assets	2,764
Loss arising from change in financial assumptions	(2,160)
Gain arising from changes in demographic assumptions	3,964
Experience gain	5,013
	<hr/>
Credit recorded in other comprehensive income	9,581
	<hr/>
Freudenberg Sealing Technologies Limited share	9,561
	<hr/>

The major assumptions and calculation dates for these valuations were:

	2017
	%
Rate of increases in salaries	n/a
Rate of increase in pensions in payment	3.1
Discount rate	2.7
Inflation assumption - RPI	3.2
Inflation assumption - CPI	2.2
Increases for pensions in payment:	
- pension in excess of GMP - RPI to a max of 5%	3.1
- pension in excess of GMP - RPI to a max of 5% and min of 3%	3.6
- pension in excess of GMP - Fixed 5%	5.0
- GMP accrued after 5 April 1988	2.0
Proportion of employees opting for early retirement	Nil
Proportion of employees commuting pension for cash	25%

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are that for a member currently aged 65 will live for a further 21.5 years if they are male and for a further 22.4 years if they are female. For a member who retires in 2037 at age 65, the assumptions are that they will live on average for a further 23.2 years after retirement if they are a male and a further 24.3 years if they are female. The overall scheme duration has been assumed at 22 years.

Notes to the financial statements

at 31 December 2017

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

In agreeing the discount rate used in the calculation of the present value of the pension scheme liabilities, the directors acknowledge the high degree of judgement involved, and the sensitivity of the calculations to a change in assumptions. The impact of a 0.5% change in the discount rate has an estimated impact on the defined benefit obligation of £7,727,000. If the inflation assumption was 0.5% higher, the scheme liabilities would increase by £5,280,000. If life expectancies were to increase by 1 year, the scheme liabilities would increase by £2,213,000. The directors also acknowledge their responsibilities for ensuring that actuarial assumptions are suitably updated to reflect changing economic conditions, and they confirm that the 31 December 2017 assumptions have been carefully reviewed with the actuary.

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

	2017 £000
As at 25 August 2016	-
On acquisition	116,303
Interest cost	3,085
Benefits paid	(5,528)
Actuarial loss arising from changes in financial assumptions	2,160
Actuarial gain from change in demographic assumptions	(3,964)
Other experience items	(5,013)
Liabilities extinguished on settlements	(40,378)
As at 31 December 2017	<u>66,665</u>

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

	2017 £000
As at 25 August 2016	-
On acquisition	113,250
Interest income	2,999
Total contributions	-
Benefits paid	(5,528)
Return on assets	2,764
Liabilities extinguished on settlements	(40,378)
As at 31 December 2017	<u>73,107</u>

The actual return on assets in the period was £5,763,000. No employer contributions are expected for the year ended 31 December 2018.

The company also contributes to a defined contribution pension scheme. Contributions in the period totalled £989,891, there were no contributions outstanding at the balance sheet date.

19. Off balance sheet commitments

The company enters into operating lease arrangements for the hire of buildings and plant & equipment as these arrangements are a cost effective way of obtaining the short-term benefits of these assets. The annual commitments under these arrangements are disclosed in Note 17. There are no other material off-balance sheet arrangements

Notes to the financial statements

at 31 December 2017

20. Related party transactions

Related parties of the company with whom there were transactions during the period fall into the following categories:

- Subsidiary companies and other related parties of Freudenberg & Co Kommanditgesellschaft, the ultimate parent undertaking Freudenberg Sealing Technologies Limited.

The aggregate values of transactions with related parties during the period were as follows:

	2017
	£
Sales	6,163,410
Purchases	25,783,084
Balances as at 31 December with related parties were as follows:	
Amounts included in debtors:	
– Group undertakings	872,339
Amounts included in creditors due in less than one year:	
– Group undertakings	16,234,301

21. Ultimate parent undertaking and controlling party

In the opinion of the directors, Freudenberg & Co Kommanditgesellschaft of D-69465 Weinheim, Germany is the ultimate parent undertaking and the Board of partners of Freudenberg & Co Kommanditgesellschaft is the ultimate controlling party. Copies of its financial statements, which is the largest group in which the company's results are consolidated, are available from that address. The smallest group in which the company's results are consolidated at Freudenberg SE.

22. Business combination – pooling of interests

On 1 January 2017, the company received the trade, assets and liabilities of Freudenberg Technical Products LP. As this was a transfer from a limited partnership under common control, the company has accounted for this as a pooling of interests and therefore has not assessed the fair value of assets and liabilities acquired, but has accounted for balances on 1 January 2017 at the book value at which they were recorded in the accounting records of Freudenberg Technical Products LP at that date as set out below. The consideration was settled in cash and inter company balances, there were no costs of acquisition.

	1 January 2017
	£
Intangible assets	–
Tangible assets	8,169,778
Investments	2
Stocks	4,539,580
Debtors	10,475,062
Cash at bank and in hand	2,704
Creditors: amounts falling due within one year	(12,844,030)
Provisions for liabilities and charges	(120,000)
Pension deficit	(3,046,428)
Net assets acquired	7,176,668

Notes to the financial statements

at 31 December 2017

23. Financial instruments

	2017 £
<i>Financial assets measured at cost:</i>	
Trade and other debtors	10,455,732
Amounts due from group undertakings	<u>872,339</u>
 <i>Financial liabilities measured at cost:</i>	
Trade and other creditors	4,443,042
Amounts due to group undertakings	<u>16,234,301</u>