

Mann + Hummel (UK) Limited

Annual report and financial statements

Registered number 3152081

31 December 2020

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Strategic report

Business review

The Company is a wholly-owned subsidiary of MANN+HUMMEL Filtration GmbH.

Worldwide, Mann+Hummel work on separating the useful from the harmful. By doing so, we are contributing to a cleaner future and we are very proud of this. Filtration is, and remains, a key technology for which there will always be a demand. Knowing this, we always remain open to change. At MANN+HUMMEL, sustainability, mobility, and digitalization are drivers for our ongoing transformation. We draw our innovative strength from these areas in order to adapt the company to meet the challenges of today and tomorrow.

In 2020, the general macroeconomic environment was uncertain, particularly with regard to exchange rates. The Covid-19 pandemic and Brexit has continued influencing the exchange rates. With regards to Brexit, to have the best possible position, the Company are proud to be AEO (Authorised Economic Operator) certified. This represents an internationally recognised quality mark indicating a secure supply chain as well as efficient and compliant customs controls and procedures. It allows the facilitation of customs procedures and gives the right to “fast-track” shipments through customs, safety and security procedures. The full authorisation (AEOF) was granted in 2019.

The turnover in 2020 decreased by 17% over the prior year. The profit after tax decreased by 60.3% to £0.9 million and the net assets of the Company at 31 December 2020 reduced by 12.6% from prior year to £18.7 million. This is mainly driven by the impairment on fixed assets and the restructuring provision.

Key performance indicators

The Company uses a range of financial and non-financial key performance indicators (“KPIs”) across its activities. Financial KPIs focus primarily on profitability and cash flow. Financial results are closely monitored by management and shareholders.

A decrease in turnover of 17% in combination with the impairment on fixed assets, loss on disposal of investments and the restructuring provision therefore led to an operating loss of £1.4 million in 2020 (153% lower compared to 2019).

Significant non-financial KPIs include Quality metrics (e.g. customer concerns, Non quality costs) and on the Logistics side delivery performance and stock coverage days. The Company strives to be its customers’ first choice by delivering perfect parts and perfect service, and the directors continued to focus efforts on improvement projects, in order to live up to the promise.

Principal risks and uncertainties

Competitive pressure in all divisions and in all markets is a continuing risk for the Company. The Company hence focuses its attention on becoming more productive and living a continuous improvement culture on the one side, and providing perfect parts and perfect service to its customers on the other side, to remain the customers’ first choice.

The Company is exposed to transactions in foreign currencies, mostly euros. The Company manages to hedge the risks by offsetting sales and purchases in most currencies. This exposure became more uncertain due to the UK referendum decision to leave the EU in 2016 and has continued throughout the period of transition, and the resulting movements in exchange rates, which remains unstable.

The Company’s businesses are affected by fluctuations in the price and supply of key raw materials, although purchasing policies and practices seek to mitigate such risks.

The exit of the UK from the EU, and the potential barriers to the single market, as well as those for EU citizens to work for MHUK, are cause for concern, and the Director’s closely monitor the development of the negotiations between the UK Government and the EU in order to react timely to any developments.

Section 172(1) Statement

The Companies (Miscellaneous Reporting) Regulations 2019 (the “Regulations”) have been in force with effect from 1 January 2019. The Regulations aim to extend sustainable and responsible governance practice beyond listed companies to private limited companies. Amongst other things, the Regulations require the company to report how the directors of the Company have considered their duties under section 172 (of the Companies Act 2006 (the “Act”)) (“Section 172”), to promote the success of the Company during the reporting period.

The directors have ensured compliance with their duties under section 172 in relation to the company and its various stakeholders, including its investors, workforce, customer and suppliers, local community and the environment. Engagement with the company’s stakeholders has informed the way in which directors have discharged their duties as described below. Where individual directors are not directly involved in the processes described below, regular feedback and meetings are held with the relevant management teams including operational review meetings. The directors have oversight of the running of the company, including regular reviews of the performance and consideration of risks and opportunities.

The main purpose of the company is the manufacturing of air cleaner systems and technical plastic parts for the automotive industry, distributors of filters to the automotive and industrial aftermarket, and manufacturers of centrifuges for the truck, heavy duty, construction, mining and shipbuilding industry.

Our values guide our daily actions towards customers, employees and our environment. The first letters make up the word “FILTER”, and we thus call them our “FILTER” values: Focus, Innovation, Leadership, Trust, Empowerment and Results.

Investors

The company is part of the Mann+Hummel Group and as such the directors have ensured the strategy, values and policies of the group have been adopted. Central to the trust between a Company and its shareholders is the commitment to principled corporate governance. The company has a range of Group policies designed to ensure that best practice is adhered to. These include, but not limited to, the Code of Conduct and Social Charter, Confidentiality and Data Security, Diversity and Equal Opportunities, Anti-bribery and Corruption and Whistleblowing. The Company also have an employee handbook for more local rules and policies.

The Company has a Leadership team consisting of Senior management who meet regularly to provide oversight and assess the effective needs of the company.

Management financial reporting is also a key focus of corporate management. Financial reporting is submitted monthly and is reviewed by operational and financial senior management. Regular forecasts are also compiled to provide a detailed plan of Company performance for the current year. These financial results are reported at business unit and company level, and ultimately to the parent company. The outcome of these performance measures is critical in strategic and operational decision making.

Workforce (past and present)

Current Employee Engagement

The Company has continued to engage with the workforce through town hall presentations where all employees are required to attend to get an update on the Company’s strategy and performance. Other methods of communication have involved articles being published on the intranet, notice boards, letters, emails and also encouragement to sign up to the Company social media platform “M+H Connect” where employees can post their own content and actively get involved in content shared at a corporate level. With this variety of communication, the Company is engaging the workforce, and shows we are committed to lead in a way that empowers, develops, and involves, treating every employee as a stakeholder to the business.

As part of the global group Code of Conduct, it is made clear that the success of the Company is based on the diversity of people and a respectful attitude and approach to others. The Company pride themselves on a diverse workforce and the staff employment is made up of many different nationalities from around the World.

Post-retirement benefits

The company provides post-retirement pension provisions for its current employees through a defined contribution scheme with Scottish Widows.

The Company also operates a defined benefit pension plan, the Mann + Hummel (UK) Limited Retirement Benefit Scheme ("the Scheme"). The funding level of this Scheme is subject to adverse change resulting from movements in the actuarial assumptions underlying the calculation of the plan liabilities, inflation and longevity of plan members, and the fluctuation in the market value of the Scheme's investment, although the Company and Scheme Trustees have mitigated much of this risk through the investment strategy. The defined benefit plan is closed to future accrual of benefits. The latest formal triennial valuation of the Scheme was carried out as at 31 December 2018 in accordance with the Statutory Funding requirements of the Pensions Act 2004. This showed that the Scheme was 106% funded on a Technical Provisions basis. The Scheme's assets are held on the Mobius Life Investment Platform and the investment strategy targets a return of around 1.4% p.a. over the return on UK Government bonds. The investment strategy was reviewed towards the end of 2019 with the aim of reducing risk, and the resulting changes were implemented during 2020.

Customer

The customer is a key consideration in many management decisions through the product life cycle.

To enter mass production, the drawings are signed off and approved by the customer and then the Company will produce based on these requirements. Once in mass production, the life cycle is also managed through customer required change requests.

Commercial pricing and customer settlements are negotiated and agreed with the customer to ensure sales recoveries are in line with both parties' corporate expectations. Subsequent change requests are quoted according to complexity and requirement for design changes.

As a supplier, the manufacturing part of the Company receive production schedules on a daily basis from various customers. These schedules then form the basis of material planning. The Aftermarket Distribution arm of the Company is in constant communication with the customers and as such, are provided with forecasted orders which form the basis of trading stock planning.

Supplier

The Company is committed to be a supplier of choice to its customers by providing superior products while displaying excellence in quality, innovation, delivery, service and competitiveness. As an extension of our operations, we expect our supply base to share this commitment and to drive toward a culture of zero defects. Only this commitment will allow all to us to successfully operate in today's environment.

We seek to establish strong supplier relationships with a high degree of integrity and corporate ethics. In return, our intention is to operate fairly and make decisions based solely on overall value to the Company. We will not allow any inappropriate influence to compromise or sway our decisions. It is expected that this commitment is also made by our suppliers to those further down the supply chain.

Global procedures are in place to ensure that suppliers are only onboarded when a Frame Contract is signed which ensures the supplier is committed to fulfil the stipulated terms and conditions. Before fully onboarded, checks are also made on their financial stability and that they meet the quality and capacity requirements of the Company. As part of this process, there is also a requirement that the supplier uploads any quality and environmental certificates so the Company can ensure that the supplier is environmentally sound.

On the occasions where the customers require the Company to use specific suppliers, the same process is applied.

Environmental

MANN+HUMMEL (UK) LIMITED is aware of the importance of its environmental responsibilities, monitors its impact on the environment, and designs and implements policies to mitigate adverse impacts that might be caused by its activities. The Company operates in accordance with the Group's policies, as noted in the parent company's Annual Report, which does not form part of this Annual Report and Financial Statements. Initiatives aimed at minimising the Company's impact on the environment include safe disposal of manufacturing waste, recycling and reducing energy consumption and CO2 emissions.

The Company also prides themselves on being ISO 14000 accredited which is a family of standards related to environmental management that exists to help organisations minimise how their operations negatively affect the environment; comply with applicable laws, regulations, and other environmentally

Principal Decisions

During the year, the Company acquired Mann+Hummel Filtration Technology UK Limited ("FTUK") for £1, a Mann+Hummel Group subsidiary. As FTUK was also an Aftermarket Distributor and shared some of the same customers, the decision was made to benefit from economies of scale and consolidate the operations by transferring the FTUK customer base and selected assets into the Company. At the time of acquisition, FTUK was insolvent and therefore the Company injected £2,000,000 of capital. FTUK transferred all assets and liabilities to the Company, resulting in income from investments of £1,160,129. On 23 September 2020, the decision was taken to begin the liquidation process for FTUK; the process is expected to be completed prior to the end of 2021.

The Company also disposed of its investment in Industrial Filters Limited, a company which Mann+Hummel (UK) Limited has owned since 2002, and has been dormant since the same year. The decision had no impact on the Company or its stakeholders.

On 24 November 2020, the Directors of the Company became aware of a significant decision taken by its immediate parent entity. This decision refers to the proposal of closing one of the three sites within the Company. In the months leading up to the announcement, several opportunities had been presented and evaluated to improve the plant's competitiveness. It was concluded that savings or other measures could not offset the dramatic decline in volume. The proposal to close the plant entered into the consultation phase where employee representatives were selected and communications between the Company and the representatives took place to review all possible options. All points were reviewed and taken into consideration at Company Board level. On 1 March 2021, it was subsequently communicated that the closure would go ahead. The Company will continue to keep its employees informed, and ensure a smooth transition for its customers and suppliers throughout the process of the closure.

By order of the board



N Cannon
Director

September 16, 2021
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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2020.

Principal activities

The Company is a wholly-owned subsidiary of MANN+HUMMEL Filtration GmbH.

Its principal activities are the manufacturing of systems and components for automotive OEMs and the distribution of filters to the aftermarket in the automotive and industrial markets. The Company also manufactures, markets and sells centrifuges. The Company sells its products in the United Kingdom and its principal export markets are Europe, USA, Japan and Singapore.

Proposed and paid dividend

The directors have not proposed a final ordinary dividend for the 2020 financial year. (2019: 94 pence per share).

The dividend declared in the prior year but paid during the year is £4.23 million (2019: £5 million).

Directors

The directors who held office during the year and up to the date of this report were as follows:

E Weissenbacher	(resigned on 15 April 2020)
M Heck	
R Soine	
A Johnston	(appointed on 15 April 2020)
N Cannon	(appointed on 15 April 2020)

Employees

Details of the number of employees and related costs can be found in note 4 to the financial statements. Applications for employment by disabled persons are fully considered, taking into account the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Company continues and that appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

The Company places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on various factors affecting the performance of the Company. This is achieved through briefing meetings, Company newsletters, kaizen activities and training sessions.

Streamline Energy and Carbon Reporting (SECR)

In compliance with 'The Companies Act 2006' (Strategic Report and Directors' Report) in particular Part 7A to Schedule 7 'Dealing with energy and carbon disclosures by large unquoted companies', please find below the disclosure of energy and CO₂ information for the Company for the 2020 financial year. This SECR report includes information relating to greenhouse gas emissions (scope 1 and 2), energy consumption data for fuels, electricity and transport and a CO₂e intensity ratio (tCO₂e (Tonnes) per material processed (Tonnes)). The declaration identifies some of the energy saving measures implemented by the Company. The Company generated 1,423.31 tonnes of CO₂e and consumed 6,237,633 kWh of energy within the 2020 financial year.

Greenhouse Gas Emissions

CO2 emissions for the period 1 January 2020 to 31 December 2020

Description	Scope	2020
		tCO2
All Direct Emissions from the activities undertaken within the control of the Company. Including fuel combustion such as gas boilers, fleet vehicles.	Scope 1	173
Indirect Emissions from the purchase of electricity, steam or cooling by the Company.	Scope 2	1,250
Total		1,423

Energy Consumption

Energy consumption (kWh) for the period 1 January 2020 to 31 December 2020

Utility	2020
	(kWh)
Electricity	5,362,370
Gas	689,636
Transport	185,628
Total	6,237,634

CO2 Intensity Ratio

CO2e (Tonnes) Emissions per Material processed (Tonnes) for the period 1 January 2020 to 31 December 2020

Description	2020
tCO2e (Tonnes) per material processed (Tonnes)	0.535

Energy Efficiency Measures

- The Company reorganised the production processes at the Hilton Cross site to allow the product to flow better through the site saving energy and time and identifying any product defects quicker reducing scrappage.
- The Company replaced all fluorescent tubes (T8 double tubes) on the injection moulding machines and inspection areas with LED lighting of equivalent or better LUX levels. (Hilton Cross site)

Methodology

The methodology for the reporting of SECR was taken from the Department of Business Energy and Industrial Strategy (BEIS) with specific instruction from 'Environmental Reporting Guidelines including streamlined energy and carbon reporting guidance (March 2019)'.

CO2 conversion factors and calorific convertors were generated via 'UK Government GHG Conversion Factors for Company Reporting 2020 and 2019'.

All utility information (electricity and natural gas) was generated from utility invoices.

The transportation consumption was taken from information generated from utility invoices, internal metering and the accounting systems operating at the Company

Significant events during the financial year

Covid-19

During 2020 the Company was affected by the global Covid-19 pandemic. In line with the government lockdown at the end of March 2020 and our Passenger Car Customer behaviour, the Company stopped production at the main Wolverhampton manufacturing site (main impact in April 2020) and furloughed most of the production employees. Since the beginning of May, the Company saw a phased return of their main customers and an increase in demand. Also, sales in the Independent Aftermarket sector slowed during the government shutdown period but the business showed a good recovering from June.

Even with this impact on sales, MHUK continued to pay suppliers as and when they fell due, and also experienced very little disruption when collecting customer payments. Despite the COVID-19 crisis, the Company still had a positive Cash Flow position for 2020.

Company Restructure

On the 23 November 2020 the MANN+HUMMEL Group proposed to close the main manufacturing facility at Hilton Cross Business Park in Wolverhampton, United Kingdom, as it continues to review its operational footprint. With the closing of this Wolverhampton production facility, all manufacturing will be relocated within the European MANN+HUMMEL network.

The decision to close the Wolverhampton plant results from a difficult market environment, declining manufacturing volume, and the entire automotive industry undergoing a structural transition throughout Europe. The Covid-19 crisis and Brexit increased the current market uncertainty, but were not driving criteria.

The MANN+HUMMEL Group will focus even more on filtration products and continues to intensify its activities in the Life Sciences & Environment business unit.

The decision will affect around 230 employees. The manufacturing operations are expected to be fully closed by the end of 2022. This decision will result in a loss of circa £30m in revenue over the two year period.

The Company will ensure a smooth transition for its customers and suppliers and a constant high quality of all products.

MANN+HUMMEL remains active with all its business offerings and services in the United Kingdom. The manufacturing site at Chard and the Aftermarket facilities at Vernon Park will continue operating as today.

Post Balance Sheet Events

There have been no significant events that would cause any impact to the 2020 results.

Going Concern

In making their conclusions on whether to prepare the financial statements on a going concern basis the Directors have prepared cashflow forecasts for a period through to 30 September 2022 to assess if the Company can meet its liabilities as they fall due during this period. These forecasts have taken into account the Directors' best estimate of the impact of COVID-19 on the Company as well as other events that have happened during 2020 (refer to above for further details). The Directors have also sensitised these forecasts for a severe but plausible downside due to the impact of COVID-19. Both the base case and sensitised forecasts show the Company has sufficient financial resources to meet their liabilities as they fall due throughout the period assessed. However given the uncertainties that have arisen as a result of COVID-19 the Directors have also sought and obtained written confirmation from the ultimate group undertaking, MANN+HUMMEL Holding GmbH, that they would be willing to provide such financial support as is required should it be needed throughout the forecast period. The Directors have reviewed the ability of MANN+HUMMEL Holding GmbH to provide such support, as well as the Company's own net asset position, and forecast profitability and cash flows to be generated over a 12 month period from the date of approval of these financial statements. On the basis of the procedures performed the Directors have concluded it is appropriate for the financial statements to be prepared on a going concern basis.

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 they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

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

By order of the board



N Cannon
Director

September 16, 2021
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Hilton Cross Business Park
Cannock Road
Featherstone
Wolverhampton
West Midlands
WV10 7QZ

Statement of directors' responsibilities in respect of the annual 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 UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

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 and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MANN + HUMMEL (UK) LIMITED

Opinion

We have audited the financial statements of Mann+Hummel (UK) Limited for the year ended 31 December 2020 which comprise the Profit and Loss Account, the Statement of comprehensive income, the Balance Sheet, 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 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. 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

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern throughout the period from when the financial statements are authorised for issue to September 2022.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

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 contained within the annual report.

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.

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 course of 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 themselves. 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 AUDITOR'S REPORT TO THE MEMBERS OF MANN + HUMMEL (UK) LIMITED (continued)

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 9, 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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MANN + HUMMEL (UK) LIMITED (continued)

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are those that relate to the reporting framework (FRS 101 and the Companies Act 2006) and compliance with the relevant direct and indirect tax regulation in the United Kingdom. In addition, the Company has to comply with laws and regulations relating to its operations, including occupational health and safety, environmental, International Organisation for Standardisation (ISO) 14000 and General Data Protection Regulation (GDPR).
- We understood how the Company is complying with those frameworks by making enquiries of management and those charged with governance to understand how the Company maintains and communicates its policies and procedures in these areas. We corroborated our enquiries through our review of minutes of the meetings of those charged with governance. We understood any controls put in place by management to reduce the opportunities for fraudulent transactions and how monitoring of these processes is done to avoid any instance of non-compliance.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur through meeting with management to understand where they considered there was susceptibility to fraud. We also considered performance targets and the potential incentives or opportunities to manage earnings. We considered the processes and controls that the Company has established to address identified risks, or that otherwise prevent or detect fraud and how senior management monitors those processes and controls. Where the risk was considered to be higher, in particular in respect of adjustments to revenue arising other than through routine invoicing with the Company's customers, we performed audit procedures to address this identified fraud risk. These procedures included obtaining the population of all journals processed during the year. We performed a three-way correlation between revenue, receivables and cash and obtained explanations for any material outliers. We also tested manual journals posted to revenue using professional judgement. We determined the sample based on either size or nature for further testing and agreed to source documentation. These procedures were designed to provide reasonable assurance that the financial statements were free from material fraud.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved understanding management's internal controls over compliance with laws and regulations, enquiries of management and performing focused testing by considering key phrases in identifying journals for further review. We verified that material transactions are recorded in compliance with FRS 101 and where appropriate Companies Act 2006.

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

Use of our report

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

DocuSigned by:
Ernst & Young LLP

Adam Gittens (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor
Birmingham, UK

September 16, 2021

Profit and loss account
for the year ended 31 December 2020

	<i>Note</i>	2020 £000	2019 £000
Turnover	2	92,906	111,406
Cost of sales		(78,582)	(94,662)
Gross profit		14,324	16,744
Distribution costs		(7,039)	(6,180)
Administrative expenses		(6,313)	(7,886)
Impairment of investment	11	(3,337)	-
Other operating income	3	959	-
Operating (loss)/profit	3	(1,406)	2,678
Interest receivable and similar income	6	73	95
Interest payable and similar charges	7	(144)	(118)
Waiver of amount due to subsidiary	11	1,545	-
Income from investments	11	1,160	-
Profit before taxation		1,228	2,655
Taxation	8	(363)	(476)
Profit for the financial year		865	2,179

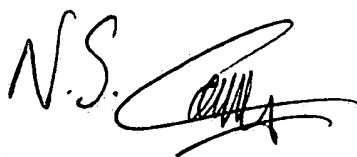
Statement of other comprehensive income
for the year ended 31 December 2020

		2020 £000	2019 £000
Profit for the financial year		865	2,179
Actuarial gain recognised in the pension scheme during the year	17	770	71
Deferred tax arising on actuarial gain in the pensions scheme	8	(101)	(46)
Other comprehensive income for the year, net of tax		669	25
Total comprehensive income for the year		1,534	2,204

Balance sheet
at 31 December 2020

	<i>Note</i>	2020 £000	£000	2019 £000	£000
Fixed assets					
Tangible assets	<i>9</i>		8,494		11,383
Right of use assets	<i>10</i>		1,827		2,138
Investments	<i>11</i>		-		1,337
Defined benefit pension scheme surplus	<i>17</i>		1,892		1,100
			<hr/>		<hr/>
			12,213		15,958
Current assets					
Stocks	<i>12</i>	6,504		6,294	
Debtors	<i>13</i>	35,573		21,240	
Cash at bank and in hand		235		6,160	
		<hr/>		<hr/>	
		42,312		33,694	
Creditors: amounts falling due within one year	<i>14</i>	(27,945)		(22,195)	
		<hr/>		<hr/>	
Net current assets			14,367		11,499
			<hr/>		<hr/>
Total assets less current liabilities			26,580		27,457
Creditors: amounts falling due after one year	<i>14</i>		(1,532)		(1,858)
Provisions for liabilities	<i>15</i>		(5,870)		(3,505)
Deferred tax liability	<i>16</i>		(461)		(681)
			<hr/>		<hr/>
Net assets			18,717		21,413
			<hr/> <hr/>		<hr/> <hr/>
Capital and reserves					
Called up share capital	<i>18</i>		4,500		4,500
Capital contribution reserve	<i>18</i>		6,824		6,824
Profit and loss account			7,393		10,089
			<hr/>		<hr/>
Total equity shareholders' funds			18,717		21,413
			<hr/> <hr/>		<hr/> <hr/>

These financial statements were approved by the board of directors on 16 September 2021 and were signed on its behalf by:


N Cannon
Director

Company registered number: 3152081

Statement of changes in equity

	Called up share capital £000	Capital contribution reserve £000	Profit and loss account £000	Total equity £000
Balance at 1 January 2019	4,500	6,824	12,885	24,209
Total comprehensive income for the period				
Profit	-	-	2,179	2,179
<i>Other comprehensive income</i>				
Actuarial gain recognised in the pension scheme during the year	-	-	71	71
Deferred tax arising on actuarial gain in the pensions scheme	-	-	(46)	(46)
Total comprehensive income for the period	-	-	2,204	2,204
Transactions with others, recorded directly in equity				
Dividends	-	-	(5,000)	(5,000)
Balance at 31 December 2019	4,500	6,824	10,089	21,413
Total comprehensive income for the period				
Profit	-	-	865	865
<i>Other comprehensive income</i>				
Actuarial gain recognised in the pension scheme during the year	-	-	770	770
Deferred tax arising on actuarial gain in the pensions scheme	-	-	(101)	(101)
Total comprehensive income for the period	-	-	1,534	1,534
Transactions with others, recorded directly in equity				
Dividends	-	-	(4,230)	(4,230)
Balance at 31 December 2020	4,500	6,824	7,393	18,717

Notes

(forming part of the financial statements)

1 Accounting policies

Mann + Hummel (UK) Limited (the "Company") is a company incorporated, domiciled and registered in the UK. The registered number is 3152081 and the registered address is Hilton Cross Business Park, Cannock Road Featherstone, Wolverhampton, West Midlands, WV10 7QZ.

The Company is exempt by virtue of Section 400 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.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The Company's ultimate parent undertaking, MANN+HUMMEL International GmbH & Co. KG includes the Company in its consolidated financial statements. The consolidated financial statements of MANN+HUMMEL International GmbH & Co. KG are prepared in accordance with International Financial Reporting Standards as adopted by the EU and are available to the public and may be obtained from Hindenburgstraße 45, 71638 Ludwigsburg, Germany.

In these financial statements, the company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- a Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital and tangible fixed assets;
- Disclosures in respect of transactions with wholly owned subsidiaries ;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs;
- Disclosures in respect of the compensation of Key Management Personnel; and
- Disclosures of transactions with a management entity that provides key management personnel services to the company.

As the consolidated financial statements of MANN+HUMMEL International GmbH & Co. KG include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- Certain disclosures required by IFRS 13 *Fair Value Measurement* and the disclosures required by IFRS 7 *Financial Instrument Disclosures*.

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

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the year are discussed in note 22.

Notes (continued)

1 Accounting policies (continued)

1.1. Measurement convention

The financial statements are prepared on the historical cost basis.

1.2. Going concern

In making their conclusions on whether to prepare the financial statements on a going concern basis the Directors have prepared cashflow forecasts for a period through to 30 September 2022 to assess if the Company can meet its liabilities as they fall due during this period. These forecasts have taken into account the Directors' best estimate of the impact of COVID-19 on the Company as well as the restructure of the Company. The Directors have also sensitised these forecasts for a severe but plausible downside due to the impact of COVID-19. Both the base case and sensitised forecasts show the Company has sufficient financial resources to meet their liabilities as they fall due throughout the period assessed. However given the uncertainties that have arisen as a result of COVID-19 the Directors have also sought and obtained written confirmation from the ultimate group undertaking, MANN+HUMMEL Holding GmbH, that they would be willing to provide such financial support as is required should it be needed throughout the forecast period. The Directors have reviewed the ability of MANN+HUMMEL Holding GmbH to provide such support, as well as the Company's own net asset position, and forecast profitability and cash flows to be generated over a 12 month period from the date of approval of these financial statements. On the basis of the procedures performed the Directors have concluded it is appropriate for the financial statements to be prepared on a going concern basis.

1.3. Foreign currency

Transactions in foreign currencies are translated to the Company's functional currency 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 retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign exchange differences arising on translation are recognised in the profit and loss account.

1.4. Classification of financial instruments issued by the Company

Following the adoption of IAS32, 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.

1.5. Basic financial instruments

Trade and other debtors / Trade and other creditors

The Company enters into basic financial instrument transactions that result in the recognition of financial assets and liabilities such as trade and other debtors; and trade and other creditors.

Notes (continued)**1 Accounting policies** (continued)

All basic financial instruments and liabilities are initially measured at transaction price. Subsequent to initial recognition they are measured at amortised cost.

For financial assets measured at cost less impairment, the impairment loss is measured at the difference between an assets carrying amount and best estimate of the recoverable amount. See section 1.8 for further details on impairment.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Derecognition of financial assets

Derecognition of a financial asset or part of the asset occurs when:

- The contractual rights to the financial asset have expired;
- The contractual rights to receive the financial asset's cash flow are transferred by the entity;
- The contractual rights to receive the financial asset's cash flow are retained by the entity, but the entity has a contractual obligation to pay the cash flows to one or more recipients.

Derecognition of financial liabilities

The Company shall remove a financial liability from its financial statements when the obligation specified in the contract is discharged, cancelled or expired.

If an existing liability is replaced by another from the same lender on substantially different terms, or the terms of the existing liability are substantially modified, such an exchange or substantial modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts are recognised in the Profit and Loss Account.

1.6 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Land is not depreciated. The estimated useful lives are as follows:

- buildings 25 years
- plant and machinery 1 - 12 years
- fixtures, fittings, tools & equipment 1 - 10 years

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

1.7 Stocks

Stocks are stated at the lower of cost and net realisable value. Cost is based on the weighted average principle and includes expenditure incurred in acquiring the stocks, production or conversion costs and other costs in bringing them to their existing location and condition. In the case of manufactured stocks and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

Notes *(continued)***1** **Accounting policies** *(continued)***1.8. Impairment excluding stocks***Financial assets (including trade and other debtors)*

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Company would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

IFRS 9 modifies the recognition of credit risk related to financial assets, moving from the incurred loss approach to an expected loss approach: this means that expected losses are recognised upfront on trade receivables. For the Company, the main impact relates to trade receivables. The expected credit loss determined relies on a standard model based on estimates of probability of default and recovery rates.

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than stocks, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1.9. Turnover

The revenue is recognised in accordance with IFRS 15. IFRS 15 is a five-step approach to measuring and recognising revenue from contracts with customers, to ensure revenue reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to customers.

Turnover represents the total goods invoiced during the year in the normal course of business net of value added tax and net of promotional support.

Turnover from the sale of goods is recognised when the control of the goods have passed to the buyer, on dispatch or delivery of the goods.

Notes (continued)**1 Accounting policies (continued)****1.10. Employee benefits***Defined contribution plans*

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets (at bid price) are deducted. The Company determines the net interest on the net defined benefit liability/(asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability/(asset).

The discount rate is the yield at the reporting date on bonds that have a credit rating of at least AA that have maturity dates approximating the terms of the Company's obligations and that are denominated in the currency in which the benefits are expected to be paid.

Re-measurements arising from defined benefit plans comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). The Company recognises them immediately in other comprehensive income and all other expenses related to defined benefit plans in employee benefit expenses in profit or loss.

The calculation of the defined benefit obligations is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, the recognised asset is limited to the present value of benefits available in the form of any future refunds from the plan or reductions in future contributions and takes into account the adverse effect of any minimum funding requirements.

1.11. Expenses*Interest receivable and Interest payable*

Interest payable and similar charges include interest payable and net foreign exchange losses that are recognised in the profit and loss account (see foreign currency accounting policy).

Other interest receivable and similar income include interest receivable on bank interest and net foreign exchange gains.

Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method.

1.12. Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss 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 on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent

Notes (continued)

1 Accounting policies (continued)

that they will probably not reverse in the foreseeable future. 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 the temporary difference can be utilised.

1.13. Lease agreements

The company applies IFRS 16 to all leases of right of use assets with the exception of short term and low value leases. Lease liabilities are recognised at the present value of the remaining lease payments, discounted using the company's incremental borrowing rate. The lease term is a non-cancellable period of lease, adjusted by any option to extend or curtail the term where the option is reasonably certain to be exercised. Right of use assets are measured at amounts equal to the lease liability. Assets are depreciated on a straight line basis over the term of the lease.

Short term and low value leases are treated as operating leases and the rentals are charged to the income statement on a straight-line basis over the lease term.

1.14. Government grants

Grants of a revenue nature are recognised in the profit and loss account in the same period as the related expenditure.

Grants relating to the job retention scheme are recognised when the requirements are met and recognised in the profit and loss account in the period to which it relates to.

Notes (continued)**2 Turnover**

Turnover comprises the invoiced value of goods and services supplied excluding value added tax. The directors consider that there is only one class of business.

The geographical analysis of turnover by destination is as follows:

	2020 £000	2019 £000
UK	65,947	71,686
Europe	19,431	31,673
Rest of world	7,528	8,047
	<u>92,906</u>	<u>111,406</u>

Revenue is analysed as follows:

	2020 £000	2019 £000
Manufactured	43,787	68,291
Aftermarket	49,119	43,115
	<u>92,906</u>	<u>111,406</u>

3 Operating (Loss)/Profit

The operating profit is stated after charging/(crediting):

	2020 £000	2019 £000
Amounts payable to the auditors in respect of audit services	37	43
Amounts payable to the auditors in respect of other services related to taxation	13	13
Amounts payable to the auditors in respect of other non-audit services	23	-
Depreciation of owned tangible fixed assets	1,640	1,610
Depreciation on right-of-use assets	681	682
Impairment of owned tangible fixed assets	1,927	-
Impairment of investments	3,337	-
Operating lease expense for low value and short term leases	107	-
Other operating income*	(959)	-
	<u></u>	<u></u>

*The grant income in respect of the COVID-19 Job Retention Scheme was fully received and is not repayable. This has been recognised in the Profit and Loss Account as "Other Operating Income"

Notes *(continued)***4 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	
	2020	2019
Production	183	242
Office and administration	64	71
Selling and distribution	69	69
	<u>316</u>	<u>382</u>

The aggregate payroll costs of these persons were as follows:

	£000	£000
Wages and salaries	9,784	11,091
Social security costs	883	1,025
Pension costs (note 17)	629	617
	<u>11,296</u>	<u>12,733</u>

5 Directors' remuneration

	2020 £000	2019 £000
Directors' emoluments (including benefits in kind)	340	35
Contributions to directors' defined contribution plans	17	2
Highest paid directors emoluments (including benefits in kind)	141	35
Contributions to the highest paid directors defined contribution plan	9	2
	<u>377</u>	<u>74</u>

Three of the directors received contributions to their defined contribution pension plans.

Certain of the directors did not receive any remuneration from the company and no charges were made to the company in respect of their services; these directors consider that the level of their qualifying services provided to the company for the years ended 31 December 2020 and 2019 were incidental to their other group roles.

6 Other interest receivable and similar income

	2020 £000	2019 £000
Receivable from group undertakings	51	4
Foreign exchange gains	-	62
Interest on defined benefit pension scheme	<u>22</u>	<u>29</u>
	<u>73</u>	<u>95</u>

Notes (continued)**7 Interest payable and similar charges**

	2020 £000	2019 £000
Payable to group undertakings	-	(38)
Interest expense (IFRS16)	(66)	(80)
Foreign exchange losses	(78)	-
	<u>(144)</u>	<u>(118)</u>

8 Taxation**Recognised in the profit and loss account**

	2020 £000	2019 £000
<i>Current tax</i>		
Current tax on income for the year	705	222
Adjustments in respect of prior periods	(21)	(30)
	<u>684</u>	<u>192</u>
<i>Deferred taxation (see note 16)</i>		
Origination and reversal of timing differences	(397)	369
Adjustment in respect of prior periods	(44)	(46)
Change in tax rate	120	(39)
	<u>(321)</u>	<u>284</u>
Total current tax	<u>684</u>	<u>192</u>
Total deferred tax	<u>(321)</u>	<u>284</u>
Tax on profit	<u>363</u>	<u>476</u>

Recognised in other comprehensive income

	2020 £000	2019 £000
Deferred tax arising on actuarial gain in pension scheme	101	46

	2020 £000	2019 £000
Profit before taxation	1,228	2,655
Tax using the UK corporation rate of 19.00% (2019: 19.00%)	233	504
<i>Effects of:</i>		
Non-deductible expenses	715	87
Income not taxable	(514)	
Adjustments in respect of prior periods	(65)	(76)
Losses	(126)	
Differences resulting from changes in rates	120	(39)
	<u>363</u>	<u>476</u>
Total tax expense included in profit or loss	<u>363</u>	<u>476</u>

Notes (continued)**8** Taxation (continued)*Factors that may affect future current and total tax charges*

The Finance (No.2) Act 2015 reduced the main rate of UK Corporation tax to 19% effective from 1 April 2017. A further reduction in the UK corporation tax rate to 17% was expected to come into effect from 1 April 2020 (as enacted by Finance Act 2016 on 15 September 2016). However, legislation introduced in the Finance Act 2020 (enacted on 22 July 2020) repealed the reduction of the corporation tax. Thereby maintaining the current rate of 19%. Deferred tax assets recognised, if any, have been measured at 19% (2019 -17%) which represents the future corporation tax rate that was enacted at the balance sheet date.

The UK budget 2021 announcements on 3 March 2021 included measures to support economic recovery as a result of the ongoing COVID-19 pandemic. These included an increase to the UK's main corporation tax to 25%, which is due to be effective from 1 April 2023. These changes were not substantively enacted at the balance sheet date and hence have not been reflected in the measurement of deferred tax balances as the period end.

9 Tangible fixed assets

	Freehold land and buildings £000	Plant and machinery £000	Fixtures, fittings, tools and equipment £000	Assets in course of construction £000	Total £000
<i>Cost</i>					
At beginning of year	9,031	24,069	3,362	789	37,251
Additions	242	257	53	196	748
Disposals	(97)	(7,476)	(897)		(8,470)
Transfers	273	394	122	(789)	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	9,449	17,244	2,640	196	29,529
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<i>Depreciation</i>					
At beginning of year	5,513	17,741	2,614	-	25,868
Charge for the year	285	1,178	177	-	1,640
Impairment	-	1,861	66	-	1,927
Disposals	(97)	(7,413)	(890)	-	(8,400)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	5,701	13,367	1,967	-	21,035
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<i>Net book value</i>					
At 31 December 2020	3,748	3,877	673	196	8,494
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2019	3,518	6,328	748	789	11,383
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

Included within freehold land and buildings is land with a value of £1,708,000 (2019: £1,708,000) which is not being depreciated.

Notes (continued)**10 Right of use assets**

	Buildings £000	Motor Vehicles £000	Plant and machinery £000	Other Equipment £000	Total £000
<i>Cost</i>					
At beginning of year	2,222	362	222	14	2,820
Additions	110	148	112	-	370
Disposals	-	(98)	(40)	-	(138)
Transfers	-	21	(21)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	2,332	433	273	14	3,052
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<i>Depreciation</i>					
At beginning of year	388	171	116	7	682
Charge for the year	413	139	122	7	681
Disposals	-	(98)	(40)	-	(138)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	801	212	198	14	1,225
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<i>Net book value</i>					
At 31 December 2020	1,531	221	75	-	1,827
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2019	1,834	191	106	7	2,138
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

11 Fixed assets investments

	2020 £000	2019 £000
<i>Cost</i>		
At beginning of year	1,337	1,337
Additions	2,000	-
	<hr/>	<hr/>
At end of year	3,337	1,337
	<hr/>	<hr/>
<i>Impairment</i>		
At beginning of year	-	-
During the year	(3,337)	-
	<hr/>	<hr/>
At end of year	(3,337)	-
	<hr/>	<hr/>
<i>Net book value</i>		
At 31 December	-	1,337
	<hr/>	<hr/>

Notes (continued)**11 Fixed assets investments** (continued)

The Company had a 100% shareholding in Industrial Filters Limited, which became dormant in 2002. The registered address was Hilton Cross Business Park, Cannock Road Featherstone, Wolverhampton, West Midlands, WV10 7QZ.

During the year, the Company decided to liquidate the business. As a result, £1,545,000 was waived by Industrial Filters and recognised as a dividend in the profit and loss accounts of the Company. The Company also impaired the value of the investment to nil.

On 31 January 2020, the Company purchased 100% of the ordinary share capital of Mann+Hummel Filtration Technology UK Limited ("FTUK") for a cost of £1 from MANN+HUMMEL Filtration GmbH. The registered address was C/O Shakespeare Martineau LLP, Bridgeway House, Bridgeway, Stratford-upon-Avon, Warwickshire, CV37 6YX. The nature of business was to provide Aftermarket products to the automotive industry.

The Company provided a contribution of £2,000,000 to FTUK. On various dates between April and September 2020, FTUK transferred its assets and liabilities as stated below to the Company with no consideration. The hived-up assets and liabilities were recognised at fair value in the Company and net amount of £1,160,129 was recognised as an income from investment. On 23 September 2020, the Company decided to liquidate FTUK which resulted in the Company impairing the value of the investment to nil.

Analysis of net assets of FTUK at the date of hive-up:

	Fair Value £000
Trading Goods Stock	271
Tangible Fixed Assets	22
Rebate Provision	(137)
VAT Asset Transfer	6
Cash	998
	<hr/>
Total	1,160
	<hr/> <hr/>

12 Stocks

	2020 £000	2019 £000
Raw materials and consumables	5,531	4,565
Work in progress	447	1,196
Finished goods and goods for resale	526	533
	<hr/>	<hr/>
	6,504	6,294
	<hr/> <hr/>	<hr/> <hr/>

13 Debtors

	2020 £000	2019 £000
Trade debtors	20,936	18,636
Amounts owed by group undertakings*	13,904	2,039
Prepayments and accrued income	378	182
Corporation tax	<u>355</u>	<u>383</u>
	35,573	21,240
	<hr/> <hr/>	<hr/> <hr/>

All debtors are due within one year (unless specified).

Notes (continued)**13 Debtors** (continued)

*included within amounts owed by group undertakings is a cashpool asset with Mann+Hummel Holding GmbH of £12,006,620 (2019: creditor of £656,483)

14 Creditors

	2020 £000	2019 £000
Creditors: amounts falling due within one year		
Trade creditors	5,183	5,517
Amounts owed to group undertakings*	11,221	9,874
Other taxation and social security costs	4,803	1,698
Accruals and deferred income	6,154	4,496
Lease Liabilities falling due within one year	584	610
	<u>27,945</u>	<u>22,195</u>

*in 2019, included within amounts owed to group undertakings is a cashpool liability with Mann+Hummel Holding GmbH of £656,483 (2020: debtor of £12,006,620)

	2020 £000	2019 £000
Creditors: amounts falling due after more than one year		
Lease Liabilities falling due after more than one year	1,532	1,858
	<u>1,532</u>	<u>1,858</u>

Amounts owed to group undertakings are repayable on demand, unsecured and non-interest bearing.

15 Provisions for liabilities

Split as follows:	Warranty £000	Restructuring £000	Total £000
At beginning of year	3,505	-	3,505
Additions in the year	524	2,260	2,784
Utilised in the year	(129)	-	(129)
Released in the year	(290)	-	(290)
	<u>3,610</u>	<u>2,260</u>	<u>5,870</u>
At end of year	3,610	2,260	5,870

A provision is recognised for expected warranty claims on products sold. Assumptions used to calculate the provision were based on sales levels and information on return levels and average claim values. The Directors anticipate the provision will be utilised other the next three years.

During the year the Directors made the decision to restructure the business and a provision for the expected restructuring cost was made of £2,260,000. The Directors anticipate the provision will be utilised by the end of 2022.

Notes (continued)**16 Deferred tax assets and liabilities**

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2020 £000	2019 £000	2020 £000	2019 £000	2020 £000	2019 £000
Tangible fixed assets	-	-	(318)	(581)	(318)	(581)
Other	130	87	-	-	130	87
Losses	86	-	-	-	86	-
Employee benefits	-	-	(359)	(187)	(359)	(187)
	<u>216</u>	<u>87</u>	<u>(677)</u>	<u>(768)</u>	<u>(461)</u>	<u>(681)</u>

Movement in deferred tax during the current and prior year

	1 January 2019 £000	Recognised in profit or loss £000	Recognised in OCI £000	31 December 2019 £000	Recognised in profit or loss £000	Recognised in OCI £000	31 December 2020 £000
Tangible fixed assets	(441)	(140)	-	(581)	263	-	(318)
Other	90	(3)	-	87	43	-	130
Losses	-	-	-	-	86	-	86
Employee benefits	-	(141)	(46)	(187)	(71)	(101)	(359)
	<u>(351)</u>	<u>(284)</u>	<u>(46)</u>	<u>(681)</u>	<u>321</u>	<u>(101)</u>	<u>(461)</u>

The deferred tax asset on the defined benefit pension scheme currently in surplus represents the spreading of pension contribution deductions into future periods.

17 Employee benefits

The Company operates a defined benefit pension plan, the Mann + Hummel (UK) Limited Retirement Benefit Scheme ("the Scheme").

The funding level of this Scheme is subject to adverse change resulting from movements in the actuarial assumptions underlying the calculation of the plan liabilities, inflation and longevity of plan members, and the fluctuation in the market value of the Scheme's investment, although the Company and Scheme Trustees have mitigated much of this risk through the investment strategy. The defined benefit plan is closed to future accrual of benefits. The latest formal triennial valuation of the Scheme was carried out as at 31 December 2018 in accordance with the Statutory Funding requirements of the Pensions Act 2004. This showed that the Scheme was 106% funded on a Technical Provisions basis. The Scheme's assets are held on the Mobius Life Investment Platform and the investment strategy targets a return of around 1.4% p.a. over the return on UK Government bonds. The investment strategy was reviewed towards the end of 2019 with the aim of reducing risk, and the resulting changes were implemented during 2020.

The information disclosed below is in respect of the whole of the plans for which the Company is either legally responsible or has been allocated a share of cost under an agreed group policy throughout the periods shown.

The history of the plans for the current and prior periods is as follows:

Notes (continued)**17 Employee Benefits** (continued)

	2020 £000	2019 £000
Present value of scheme liabilities	(12,192)	(11,700)
Fair value of scheme assets	14,084	12,800
Surplus	1,892	1,100

Movements in net defined benefit asset

	Defined benefit obligation		Fair value of plan assets		Net defined benefit asset	
	2020 £000	2019 £000	2020 £000	2019 £000	2020 £000	2019 £000
Balance at 1 January	(11,700)	(10,800)	12,800	11,800	1,100	1,000
Included in profit or loss						
Interest (cost)/income	(231)	(302)	253	331	22	29
Included in OCI						
Re-measurements (loss)/gain:						
Actuarial (loss) arising from changes in assumptions	(541)	(973)	-	-	(541)	(973)
Return on plan assets excluding interest income	-	-	1,311	1,044	1,311	1,044
Other	(541)	(973)	1,311	1,044	770	71
Benefits paid	280	375	(280)	(375)	-	-
Balance at 31 December	(12,192)	(11,700)	14,084	12,800	1,892	1,100

The fair value of the plan assets are as follows:

	2020 £000	2019 £000
Equities	-	4,100
Bonds	10,338	5,400
Cash	62	-
LDI	3,684	3,300
Total market value of scheme assets	14,084	12,800

Notes (continued)**17 Employee Benefits** (continued)

The assumptions adopted are the directors' best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

Principal actuarial assumptions (expressed as weighted averages) at the year-end were as follows:

	2020 %	2019 %
Discount rate	1.30	2.00
Future salary increases	-	-
Future revaluation of pensions in deferment	2.30	2.20
Future pension increases (5% LPI)	2.85	3.05
Future pension increases (2.5% LPI)	2.10	2.10
Future pension increases (RPI min 3% max 5%)	3.50	3.65
Price inflation CPI	2.20	2.20

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65-year old to live for a number of years as follows:

	2020	2019
Mortality – current pensioners		
Actuarial tables used		
Life expectancy for males currently aged 65 (years from 65)	21.0	21.0
Mortality – future pensioners		
Actuarial tables used		
Life expectancy for males currently at age 45 (years from 65)	22.0	22.0

The sensitivities regarding the principle assumptions used to measure the schemes liabilities are set out below:

Assumption	Change in assumption	Impact on the Scheme's defined benefit obligation £000
Discount rate	-1.0%-points	2,533
Discount rate	+1.0% -points	(1,984)
Pension increases	-0.5%-points	(632)
Pension increases	+0.5%-points	665
Life expectancy	decrease in members' age by -1 year	(620)
Life expectancy	increase in members' age by +1 year	639

Notes (continued)**17 Employee Benefits (continued)****Funding**

The weighted average duration of the defined benefit obligation at the end of the reporting period is 20 years (2019: 18 years).

Defined contribution plans

The company also participates in a defined contribution scheme, operated by Scottish Widows, the assets of which are held separately from the company. The amounts charged to the profit and loss account in respect of this scheme represent contributions payable in respect of the accounting period. The total pension cost for the defined contribution scheme was £629,369 (2019: £616,913).

18 Capital and reserves**Share capital**

	2020 £000	2019 £000
<i>Allotted, called up and fully paid:</i>		
4,500,000 ordinary shares of £1 each	4,500	4,500

Capital contribution reserve

The capital contribution made by MANN+HUMMEL GmbH was an unconditional gift with no terms for repayment.

19 Lease Liabilities

	Buildings £000	Motor Vehicles £000	Plant and machinery £000	Other Equipment £000	Total £000
At beginning of year	2,167	187	107	7	2,468
Additions in the year	110	148	112	-	370
Interest in the year	59	4	3	-	66
Payments in the year	(514)	(142)	(125)	(7)	(788)
Transfers	-	21	(21)	-	-
At end of year	1,822	218	76	0	2,116

The company has lease contracts for two of the three properties in operation. The company also has 25 IFRS16 lease contracts for motor vehicles and 18 for plant and office equipment as at 31 December 2020. The lease terms vary across the contracts. Any leases that are less than twelve months in length have been treated as short term operating leases.

	2020 £000
Lease liability recognised at 31 Dec 2020	
Current lease liabilities	584
Non-current lease liabilities	1,532
Total	2,116

Notes (continued)**19 Lease Liabilities (continued)**

	2020 £000
Maturity Analysis – undiscounted cash flows	
Less than one year	637
One to five years	1,588
	<hr/>
Total of undiscounted cash flows	2,225
Impact of discounting cash flows	(109)
	<hr/>
Total of discounted cash flows	2,116
	<hr/> <hr/>

20 Operating leases

As at 31 December 2020 the company have annual commitments under non-cancellable low value operating lease rentals as follows:

	2020 £000	2019 £000
Less than one year	9	-
	<hr/>	<hr/>
	9	-
	<hr/> <hr/>	<hr/> <hr/>

21 Commitments

There were £400 unprovided capital commitments at the end of the financial year (2019: £184,999).

22 Accounting estimates and judgements

The key assumptions concerning the areas of uncertainty at the balance sheet date which have a significant risk of causing a material adjustment to carrying amounts are:

Provisions

Provisions for warranty are recognised when the Company has a legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are not recognised for future operating losses. The Company recognises the estimated liability to repair or replace products still under warranty at the balance sheet date. This provision is calculated based on past historical experience of the level of repairs and replacements. It is also evaluated whether the obligation is potentially covered by an existing insurance and whether the insurance has already been involved. In the last step a percentage assumption of cost sharing between MANN+HUMMEL and the claimant is set based on historical experiences and ongoing discussions.

As a result of the Company announcement to close the Hilton Cross site, a restructuring provision was calculated and a review of assets for impairment was performed. The Company recognised the impairment loss on the fixed assets where future recoverable amount of assets were lower than the carrying value as at 31 December 2020. The Company also calculated a reliable estimate of the restructuring expenses based on the restructuring plan put in place.

Notes (continued)

22 Accounting estimates and judgements (continued)

Defined benefit pension scheme valuations

In determining the valuation of defined benefit scheme assets and liabilities, a number of assumptions have been made, notably in relation to the expected return on plan assets, inflation and discount rates, mortality rates, salary and pension increases. These assumptions are largely dependent upon factors outside the Company's control.

Valuation of stock

The Company has a formal policy for making provisions for stock to ensure they are stated at the lower of cost and net realisable value.

23 Immediate and ultimate parent company

The company is a subsidiary undertaking of MANN+HUMMEL Filtration GmbH. The ultimate parent company is MANN+HUMMEL International GmbH & Co. KG, which is incorporated in Germany. The ultimate controlling party is MANN+HUMMEL International GmbH & Co. KG

The largest and smallest group in which the results of the company are consolidated is that headed by MANN+HUMMEL International GmbH & Co. KG and incorporated in Germany. The consolidated financial statements of this company are available to the public and may be obtained from Hindenburgstrasse 45, 71638 Ludwigsburg, Germany.