Company Registration No. 00693949

SOGEFI FILTRATION LIMITED

Annual Report and Financial Statements

For the year ended 31 December 2019

REPORT AND FINANCIAL STATEMENTS 2019

CONTENTS

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

C Jones
F Monteanni

SECRETARY

T Johnston

REGISTERED OFFICE

Crown Business Park
Tredegar
Gwent
NP22 4EF

BANKERS

Barclays Bank plc
Corporate Banking Centre
PO Box 1015
3 Windsor Place
Cardiff
CF10 3ZL

SOLICITORS

Eversheds LLP
1 Callaghan Square
Cardiff
CF10 5BT

AUDITOR

KPMG LLP
Cardiff

DIRECTORS' REPORT

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

DIVIDENDS

No dividends in respect of the year ended 31 December 2019 were paid or declared in the year (2018 - £nil).

DIRECTORS

C Jones and F Monteanni served throughout the financial year.

DISABLED PERSONS

Applications for employment by disabled persons are fully and fairly considered, bearing in mind the aptitudes and abilities of the person concerned. In the event of employees becoming disabled every reasonable effort is made to ensure their employment with the company continues and that appropriate training is arranged. It is the policy of the company that disabled persons should, as far as possible, have training, career development and promotion comparable with those who do not suffer from disabilities.

EMPLOYEE INVOLVEMENT

In order to keep employees informed and to achieve a common awareness of the financial and economic factors affecting performance, regular meetings are held with employee representatives. Regular newsletters are produced together with an employee annual report for those parts of the company in which they are employed. Account is taken of the views of employees in any decision-making which is likely to affect their interests. In addition, small teams of employees are involved in the detail of problem-solving and in the search for improvements in safety, quality and performance. This is supported by the Sogefi group initiative for continuous improvement using the Kaizen principles.

FRS 102

These financial statements have been prepared by the company under "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (FRS 102).

AUDITOR

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

In the case of the directors who held office at the date when this report is approved:

- 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.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

APPROVAL OF REDUCED DISCLOSURES

The company, as a qualifying entity, has taken advantage of the disclosure exemptions in FRS 102 paragraph 1.12.

DIRECTORS' REPORT (continued)

DIRECTORS' INDEMNITIES

The company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

Approved and signed by the Directors

C. Jones

C Jones
Director
Date 6TH March 2020

Crown Business Park
Tredegar
Gwent
NP22 4EF

STRATEGIC REPORT

PRINCIPAL ACTIVITIES

Sogefi Filtration Limited is engaged in the manufacture and sale of automotive filtration equipment.

FUTURE STRATEGY AND DEVELOPMENT

The company's strategy is to secure new and profitable business with both existing and new customers which will be achieved by utilising all resources available to continue to develop new products. The strategy will be achieved in a controlled manner, always considering the impact on cash flow and operating expenses.

The directors are confident of long-term success in meeting the company's objectives.

BUSINESS PERFORMANCE

The results of the company are set out on page 11. Turnover in 2019 was £48,326,000 (2018 - £53,411,000).

The company achieved an operating profit of £2,303,000 (2018 - £3,908,000). Overall, the company achieved a profit for the financial year of £1,436,000 (2018 - £2,964,000).

RESEARCH AND DEVELOPMENT

The company continues to undertake research and development to enhance its market position and such investment is regarded as an integral part of the continuing strength of the business. During the year, the company incurred research costs of £310,000 (2018 - £911,000) and capitalised £104,000 (2018 - £700,000) of development costs.

KEY PERFORMANCE INDICATORS

Relevant KPIs are set out below:

	2019	**2018**
Turnover (£m)	48.3	53.4
Operating profit (£m)	2.3	3.9
EBITDA (£m)	4.8	6.4
Net current assets (£m)	17.9	15.6
Operating profit/turnover (%)	4.8%	7.3%
Operating profit/per employee (£'000)	9.2	13.3
Turnover increase/(decrease) (%)	(9.5%)	(9.4%)

PRINCIPAL RISKS AND UNCERTAINTIES

The management of the business and execution of strategy are subject to a number of risks. Key business risks principally relate to market competition, both from a national and international perspective, and the retention of suitably qualified employees. Business risks are reviewed regularly by the directors and appropriate processes are put in place to monitor and mitigate their impact. Supply chain risks are mitigated by the increasing use of a centralised group procurement strategy.

Financial risk management

The company's operations expose it to a variety of financial risks that include the effects of changes in foreign exchange risk, price risk, credit risk, liquidity risk and interest rate risk.

The company has in place an informal risk management programme that seeks to limit the adverse effects on the financial performance of the company by monitoring levels of debt finance where applicable and the related finance costs. Given the size of the company, the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the board. The policies set by the director are implemented by the company's finance department.

STRATEGIC REPORT (continued)

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

Foreign exchange risk

The company's activities expose it to a number of financial risks of changes in foreign currencies, particularly with respect to the Euro. If the need arises to mitigate these risks, the group's treasury function uses foreign exchange forward contracts to hedge these exposures.

Price risk

The company is exposed to commodity price risk as a result of its operations. However, given the size of the company's operations, the costs of managing exposure to commodity price risk exceed any potential benefits. The directors will revisit the appropriateness of this policy should the company's operations change in size or nature. The company has no exposure to equity securities price risk as it holds no listed or other equity investments.

Credit risk

The company has implemented policies that require appropriate credit checks on potential customers before sales are made. The amount of exposure to any individual counterparty is continually monitored in line with the company's credit control procedures. Credit risk insurance has been evaluated by the directors and is not deemed cost-effective in the current business climate. The directors will revisit the appropriateness of this policy should the company's operations change in size or nature.

Liquidity risk

The company is a subsidiary in the Sogefi SpA group and can draw on intra-group credit lines if required to ensure it has sufficient available funds for operations.

Interest rate cash flow risk

The company has interest-bearing assets. Interest-bearing assets include only cash balances, all of which earn interest at variable rates.

Risks associated with technological innovation

In recent years, technological innovation has taken on an increasingly central role in the automotive industry, with potential moves away from the internal combustion engine and new developments in electronics, automation and connection technologies. These changes had and continue to have a significant impact not only on the types of products, but also in terms of how production processes are being re-engineered to incorporate robotics and new technologies. In this scenario, investing in Research and Development is an important medium to long term strategic goal for the company.

Risks relating to the quality of products and processes

The risk associated with the production and marketing of products potentially not meeting industry quality standards and customer requirements could expose the company to significant consequences for business and end users. In particular, this risk could jeopardise relations with customers causing significant reputational damage, as well as high extra costs for the management of claims or possible cases of non-compliance.

The company attaches great importance to keeping high quality standards in line with customer needs. This entails ongoing quality controls over the entire production process including the supply chain (e.g. raw materials, semi-finished products, etc.), aimed at preventing any non-conformities due to defective products or quality issues.

Risk associated with Brexit

Brexit is one of the most significant economic events for the UK, and its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. Given the limited time to agree a trade deal there is still a significant risk the UK could leave the EU with no deal. This does therefore come with the risk that the company could potentially suffer from stock shortages and delays and increased costs. The company is monitoring this situation very closely and has a full range of contingency plans in place.

STRATEGIC REPORT (continued)

Statement by the directors in performance of their statutory duties in accordance with s172(1) Companies Act 2016

The board of directors of Sogefi Filtration Ltd, consider both individually and together, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole having regards to the stakeholders and members set out in s172(1)(a-f) of the Act in the decisions taken during the year ended 31 December 2019.

Sogefi Filtration Limited's mission is to provide innovative solutions to our customers creating value for all stakeholders and generating sustainable growth. Sogefi believes it will deliver its mission by being goal oriented, being efficient in everything we do, maintaining integrity and treating people with respect.

Business Relationships

Our strategy is built on the principle of putting the customer first and providing an exceptional customer experience, we focus on continuous improvement and quality in everything we do. In order to do this, we need to develop and maintain strong client relationships, we value all of our suppliers and look to deal fairly and responsibly, developing strong long-term relationships with them.

Our People

The health and safety and wellbeing of our employees is one of the prime considerations in the way we do business. The company follows a policy of consultation and discussion with its employees through union and staff consultation. Information on performance and prospects are disseminated through information bulletins and meetings. The company understands the value of employee engagement and empowerment and takes every opportunity to promote this.

Community & Environment

Sogefi considers respect for the environment as a core value for the company. The same is true of respect for its employees, its customers and the local communities in which it operates. The company follows its group's (Sogefi S.p.A.) approved Environmental Policy, which sets out the guiding principles that all subsidiaries must adopt and observe. Under this policy, the company pursues clear strategic goals, taking into account available resources and technologies, in order to progressively improve its environmental performance.

Risk Management

Consideration of risks is an integral part of how Sogefi operates, on a daily basis all operation are reviewed where key risks and opportunities are reviewed. The board of directors formally monitors risk and evaluates and manages them.

Shareholder

As a board of directors, our intention is to behave responsibly and have an open and honest relationship with our shareholder, so they may benefit from the success of the company.

GOING CONCERN

The financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The directors have prepared cash flow forecasts for a period of at least 12 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides, the company will have sufficient funds to meet its liabilities as they fall due for that period. Consequently, the directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Approved and signed by the Company Secretary

TW Johnston

T Johnston

Company Secretary

Date 6TH March 2020

Crown Business Park
Tredegar, Gwent
NP22 4EF

DIRECTOR'S RESPONSIBILITIES STATEMENT

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 102 *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 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 SOGEFI FILTRATION LIMITED

Opinion

We have audited the financial statements of Sogefi Filtration Limited ("the company") for the year ended 31 December 2019 which comprise the Profit and Loss Account, the Statement of Other Comprehensive Income, the Statement of Changes in Equity, the Balance Sheet and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

The impact of uncertainties due to the UK exiting the European Union on our audit

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

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

Going Concern

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

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOGEFI FILTRATION LIMITED *(continued)*

Strategic report and directors' report

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

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

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

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 7, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOGEFI FILTRATION LIMITED *(continued)*

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

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

Jeremy Thomas

Jeremy Thomas (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

3 Assembly Square

Britannia Quay

Cardiff

CF10 4AX

12/3/ 2020

PROFIT AND LOSS ACCOUNT
Year ended 31 December 2019

	Note	2019 £'000	2018 £'000
TURNOVER	3	48,326	53,411
Cost of sales		(38,409)	(41,765)
GROSS PROFIT		9,917	11,646
Net operating expenses	4	(7,614)	(7,738)
OPERATING PROFIT		2,303	3,908
Interest receivable and similar income	7	76	54
Interest payable and similar expenses	8	(648)	(560)
PROFIT BEFORE TAXATION	9	1,731	3,402
Tax on profit	10	(295)	(438)
PROFIT FOR THE FINANCIAL YEAR		1,436	2,964

The results for both the current and prior year were all derived from the continuing operations of the company.

STATEMENT OF OTHER COMPREHENSIVE INCOME
Year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Profit for the financial year		1,436	2,964
Re-measurement of net defined benefit liability	18	(410)	(1,373)
Movement on deferred tax in relation to pension deficit	16	70	233
Total comprehensive income for the financial year		1,096	1,824

STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2019

	Called up share capital £'000	Share premium account £'000	Profit and loss account £'000	Total equity £'000
At 1 January 2018	5,127	2,000	(2,299)	4,828
Profit for the year	-	-	2,964	2,964
Other comprehensive income				
Re-measurement of pension schemes	-	-	(1,373)	(1,373)
Movement on deferred tax in relation to pension deficit	-	-	233	233
Balance at 31 December 2018 and 1 January 2019	5,127	2,000	(475)	6,652
Profit for the year	-	-	1,436	1,436
Other comprehensive income				
Re-measurement of pension schemes	-	-	(410)	(410)
Movement on deferred tax in relation to pension deficit	-	-	70	70
Balance at 31 December 2019	5,127	2,000	621	7,748

BALANCE SHEET
As at 31 December 2019

	Note	2019 £'000	2018 £'000
FIXED ASSETS			
Intangible assets	11	1,499	2,195
Tangible assets	12	7,049	7,937
		8,548	10,132
CURRENT ASSETS			
Stocks	13	4,527	3,990
Debtors			
- amounts falling due within one year	14	19,871	17,716
- amounts falling due after more than one year	14	2,976	2,998
Cash at bank and in hand		2,091	1,660
		29,465	26,364
CREDITORS: amounts falling due within one year	15	(11,580)	(10,777)
NET CURRENT ASSETS		17,885	15,587
TOTAL ASSETS LESS CURRENT LIABILITIES		26,433	25,719
CREDITORS: amounts falling due after more than one year	15	(632)	(889)
Provisions for liabilities	17	(549)	(542)
Pension asset	18	1,359	995
Pension liability	18	(18,863)	(18,631)
NET ASSETS		7,748	6,652
CAPITAL AND RESERVES			
Called up share capital	19	5,127	5,127
Share premium account	20	2,000	2,000
Profit and loss account	20	621	(475)
SHAREHOLDER'S FUNDS		7,748	6,652

The financial statements of Sogefi Filtration Limited, registered number 00693949, were approved and signed by the Directors and authorised for issue on 6 March 2020.

C. Jones

C Jones
Director

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2019

1. ACCOUNTING POLICIES

Sogefi Filtration Limited is a private limited company incorporated in England and Wales. The address of the registered office is Unit 1 Crown Business Park, Tredegar, Gwent, NP22 4EF.

The financial statements have been prepared under the historical cost convention and in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102"). The financial statements of Sogefi Filtration Limited are prepared in Sterling, which is the functional currency of the company, and rounded to the nearest thousand pounds.

Exemptions

The company has taken advantage of the following exemptions available under FRS 102:

- the exemption from preparing a statement of cash flows; and
- the exemption from disclosing key management personnel compensation.

The company has taken advantage of the following exemption available under FRS 102 as equivalent disclosures have been given in the consolidated financial statements of CIR SpA which include the results of Sogefi Filtration Limited:

- the exemption from certain financial instrument disclosures.

Copies of the consolidated financial statements of CIR SpA can be obtained from the registered office of Sogefi SpA, Via Ciovassino 1/a 20121, Italy, or from the company's website at www.cirgroup.com.

The particular accounting policies adopted, which have been applied consistently throughout the current and the prior financial year, are described below.

Going concern

The company's business activities, together with the factors likely to affect its future development and position, are set out in the Strategic Report. The directors believe it appropriate to prepare the financial statements on the going concern basis.

Related Parties

The directors have applied the disclosure exemption available in section 33.1A of FRS102, regarding related party transactions entered into with other wholly owned members of the same group.

Turnover

Turnover is stated net of VAT and trade discounts and is recognised when the significant risks and rewards are considered to have been transferred to the buyer, which is when the goods are physically delivered to the customer. The main terms of trade are Exworks whereby the customer collects the goods from the company and delivered duty paid where the company delivers directly to the customer premises.

Tangible fixed assets and depreciation

The cost of tangible fixed assets is their purchase cost, together with any incidental expenses of acquisition. Provision for depreciation is made so as to write off the cost of tangible fixed assets on a straight-line basis over the expected useful economic lives of the assets concerned. The principal useful economic lives used for this purpose are:

Leasehold Building & Improvement	20 years
Plant and machinery	3-10 years
Fixtures and fittings	5-20 years

Construction in progress is not depreciated.

Research

Expenditure on product research is written off to the profit and loss account in the year in which it is incurred.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2019

1. **ACCOUNTING POLICIES (continued)**

Intangible fixed assets- development costs

Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Company intends, and has the technical ability and sufficient resources, to complete development, future economic benefits are probable and if the Company can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve design for, construction or testing of the production of new or substantially improved products or processes. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the profit and loss account as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and less accumulated impairment losses.

Leases
The Company as lessee

Assets held under finance leases, hire purchase contracts and other similar arrangements, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets at the fair value of the leased asset (or, if lower, the present value of the minimum lease payments as determined at the inception of the lease) and are depreciated over the shorter of the lease terms and their useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the leases to produce a constant periodic rate of interest on the remaining balance of the liability.

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term.

Government grants

Grants that relate to capital expenditure are treated as deferred income and credited to the profit and loss account over the expected useful lives of the assets concerned. Revenue-based grants are credited to the profit and loss account in the year in which they are received or receivable.

Stocks and work in progress

Stocks and work in progress are stated at the lower of cost and estimated selling price less costs to complete and sell. In general, cost is determined on a first-in first-out basis and includes transport and handling costs. In the case of manufactured products, cost includes all direct expenditure and production overheads based on the normal level of activity. Where necessary, provision is made for obsolete, slow-moving and defective stocks.

Pension scheme arrangements

The company operates four contributory defined benefit pension schemes which are externally funded and contracted out of the state scheme. Pension scheme assets are measured using market value. Pension scheme liabilities are measured using the projected unit actuarial method and are discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The difference between the market value of the assets of the schemes and the present value of the accrued pension liabilities is shown as a surplus/(deficit) on the balance sheet where appropriate, and is presented separately after other net assets on the face of the balance sheet. The increase in the present value of the liabilities of the company's defined benefit pension schemes expected to arise from employee service in the period is charged to operating profit or loss. The net interest on the net defined benefit surplus/(deficit) is included in other finance income and is calculated by applying the discount rate at the beginning of the period to the net defined benefit surplus/(deficit). Actuarial gains and losses are recognised directly in other comprehensive income and will not be reclassified to the profit and loss account. The company also operates a defined contribution scheme for qualifying members, the cost of which are charged to the profit and loss account.

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other retirement benefits is the contribution payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2019

1. **ACCOUNTING POLICIES (continued)**

Foreign currencies

Trading and non-trading transactions denominated in foreign currencies are translated into sterling at the exchange rate ruling when the transaction was entered into. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the exchange rates ruling at the balance sheet date.

Financial instruments

Financial assets and financial liabilities are recognised when the company becomes a party to the contractual provisions of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

(i) Financial assets and liabilities

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial assets and liabilities are only offset in the balance sheet when, and only when, there exists a legally enforceable right to set off the recognised amounts and the company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(ii) Equity instruments

Equity instruments issued by the company are recorded at the fair value of cash or other resources received or receivable, net of direct issue costs.

(iii) Fair value measurement

The best evidence of fair value is a quoted price for an identical asset in an active market. When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the market is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, the fair value is estimated by using a valuation technique.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2019

1. ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date that are expected to apply to the reversal of the timing difference. Deferred tax relating to property, plant and equipment measured using the revaluation model and investment property is measured using the tax rates and allowances that apply to sale of the asset.

Where items recognised in other comprehensive income or equity are chargeable to or deductible for tax purposes, the resulting current or deferred tax expense or income is presented in the same component of comprehensive income or equity as the transaction or other event that resulted in the tax expense or income.

Current tax assets and liabilities are offset only when there is a legally enforceable right to set off the amounts and the company intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax assets and liabilities are offset only if: a) the company has a legally enforceable right to set off current tax assets against current tax liabilities; and b) the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Impairment of assets

Assets, other than those measured at fair value, are assessed for indicators of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss as described below.

Non-financial assets

An asset is impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated recoverable value of the asset has been reduced. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

Where indicators exist for a decrease in impairment loss, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised.

Financial assets

For financial assets carried at amortised cost, the amount of impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date.

Where indicators exist for a decrease in impairment loss, and the decrease can be related objectively to an event occurring after the impairment was recognised, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired financial asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2019

2. KEY SOURCES OF ESTIMATION UNCERTAINTY AND JUDGEMENTS

The preparation of financial statements to conform to generally accepted accounting practice requires management to make estimates and judgements that affect the reported amounts of assets and liabilities as well as the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period.

Judgements

Recognition of Defined Benefit schemes in surplus

Defined Benefit schemes in surplus are recognised as pension assets on the balance sheet to the extent that the entity has an unconditional right to realise the surplus via reduced contributions or refunds in the future.

Key sources of estimation uncertainty

Pension plans

The net defined benefit pension scheme deficits of £17,504,000 (2018 - £17,636,000) recorded in the company's balance sheet is based on assumptions applied by the directors using data provided from the actuaries who offer their consulting services to the company and use different statistical assumptions in order to anticipate future events for the purpose of estimating pension plan expenses, liabilities and assets. Such assumptions concern discount rate, future wage inflation rates, mortality and turnover rates.

3. TURNOVER

The turnover of the company is entirely attributable to its principal activity. The geographical analysis of turnover is as follows:

	2019 £'000	2018 £'000
Geographical analysis by destination		
United Kingdom and Europe	47,645	51,680
Rest of the world	681	1,731
	48,326	53,411

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2019

4. NET OPERATING EXPENSES

	2019 £'000	2018 £'000
Distribution costs	1,694	1,684
Administrative expenses	5,920	6,054
	7,614	7,738

5. DIRECTORS' EMOLUMENTS

	2019 £'000	2018 £'000
Aggregate emoluments (including benefits in kind)	168	146
Pension contributions	18	24

Certain directors are remunerated by other group entities for their services to the group as a whole. The amount of remuneration which relates to qualifying services for the company is estimated to be a nominal amount (less than £1,000) in both years.

6. EMPLOYEE INFORMATION

The average weekly number of persons (including executive directors) employed during the year was:

	2019 Number	2018 Number
By activity		
Production	235	275
Selling, distribution and administration	14	18
	249	293
	£'000	£'000
Staff costs (for the above persons):		
Wages and salaries	6,881	7,663
Social security costs	691	758
Other pension costs (see note 18)		
-Defined contribution cost	356	407
-Defined benefit non-investment expense	489	424
-Defined benefit service cost	10	9
	8,427	9,261
Less own labour costs capitalised	(230)	(230)
	8,197	9,031

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2019

7. INTEREST RECEIVABLE AND SIMILAR INCOME

	2019 £'000	2018 £'000
Interest receivable on cash balances	76	54
	76	54

8. INTEREST PAYABLE AND SIMILAR EXPENSES

	2019 £'000	2018 £'000
Interest payable on bank loans and overdrafts	20	16
Interest payable on finance leases	122	141
Net interest charged on defined benefit pension schemes (note18)	478	376
Other interest payable	28	27
	648	560

9. EXPENSES AND AUDITOR'S REMUNERATION

	2019 £'000	2018 £'000
Included in profit are the following:		
Depreciation charge for the year:		
Tangible fixed assets – owned	1,537	1,621
Tangible fixed assets - leased	145	145
Amortisation of intangible fixed assets	766	690
Auditor's remuneration – audit services	72	71
Operating lease charges:		
Land	101	88
Plant and machinery	100	129
Motor vehicles	63	44
(Reversal of impairment)/impairment of trade debtors	(45)	21
(Reversal of impairment) of inter-company trade debtors	-	(1,110)
Impairment of intangible fixed asset	34	-
Impairment of tangible fixed asset	160	-
Research expenditure	310	911
Foreign exchange (gain)/loss	(51)	17

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2019

10. TAXATION

	2019 £'000	2018 £'000
Current tax		
United Kingdom corporation tax:		
Current tax on income for the year	217	426
Adjustment in respect of prior period	(51)	-
Total current tax	166	426
Deferred taxation		
Origination and reversal of timing differences	118	14
Changes in tax rates	(12)	(1)
Adjustment in respect of prior periods	23	(1)
Total deferred tax	129	12
Total tax recognised in the Profit and loss Account	295	438

Reconciliation of effective tax rate	**£'000**	**£'000**
Profit before tax	1,731	3,402
Tax at 19.00% (2018 – 19.00%)	329	646
Factors affecting charge for the year		
Expenses not deductible for tax purposes	6	-
Non-taxable income	-	(206)
Tax rate changes	(12)	(1)
Adjustment in respect of previous periods	(28)	(1)
Total tax charge for the year	295	438

There is no expiry date on timing differences, unused tax losses or tax credits.

A reduction in the UK corporation tax rate to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly. The deferred tax asset at 31 December 2019 has been calculated based on the rate of 17% substantively enacted at the balance sheet date.

In addition a deferred tax credit of £70,000 (2018: £233,000) has been recognised in other comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2019

11. INTANGIBLE FIXED ASSETS

Development costs	**£'000**
Cost	
At 1 January 2019	5,725
Additions	104
At 31 December 2019	5,829
Amortisation	
At 1 January 2019	3,530
Charge for the year	766
Impairment	34
At 31 December 2019	4,330
Net book value	
At 31 December 2019	1,499
At 31 December 2018	2,195

The amortisation period for development costs incurred is in line with the expected future sales from the related project from the commencement of the generation of sales. The amortisation for development costs has been recognised within administrative expenses.

Research costs of £310,000 (2018 - £911,000) were expensed within the profit and loss account during the year.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2019

12. TANGIBLE FIXED ASSETS

	Leasehold building and improvements £'000	Plant and machinery £'000	Fixtures and fittings £'000	Construction in progress £'000	Total £'000
Cost					
At 1 January 2019	2,770	22,165	533	3,467	28,935
Additions	39	341	-	587	967
Disposal	-	(77)	-	-	(77)
Transfers	-	3,461	-	(3,461)	-
At 31 December 2019	2,809	25,890	533	593	29,825
Depreciation					
At 1 January 2019	2,269	18,257	472	-	20,998
Charge for the year	145	1,513	24	-	1,682
Disposal	-	(64)	-	-	(64)
Impairment	-	160	-	-	160
At 31 December 2019	2,414	19,866	496	-	22,776
Net book value					
At 31 December 2019	395	6,024	37	593	7,049
At 31 December 2018	501	3,908	61	3,467	7,937

Leased assets included above:

Net book value					
At 31 December 2019	364	-	-	-	364
At 31 December 2018	485	-	-	-	485

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2019

13. STOCKS

	2019 £'000	2018 £'000
Raw materials and consumables	1,253	1,420
Work in progress	314	288
Finished goods and goods for resale	2,960	2,282
	4,527	3,990

The cost of inventories recognised as an expense during the year was £28,252,000 (2018 - £30,597,000). All inventory is expected to be used within 12 months.

14. DEBTORS

	2019 £'000	2018 £'000
Amounts falling due within one year		
Trade debtors	3,777	1,671
Amounts owed by group undertakings	15,486	15,734
Deferred tax asset (see note 16)	46	84
Corporation tax	420	-
Other debtors	59	43
Prepayments and accrued income	83	184
	19,871	17,716
Amounts falling due after more than one year		
Deferred tax asset (see note 16)	2,976	2,998

The amounts owed by group undertakings are unsecured, interest-free and repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2019

15. CREDITORS

	2019 £'000	2018 £'000
Amounts falling due within one year		
Finance leases due within one year	270	237
Trade creditors	6,661	6,534
Amounts owed to group undertakings	2,993	2,097
Corporation tax	-	274
Other taxation and social security	518	647
Accruals and deferred income	1,138	988
	11,580	10,777
Amounts falling due after more than one year		
Finance leases due after more than one year	632	889

The amounts owed to group undertakings are unsecured, interest-free and repayable on normal trading terms.

16. DEFERRED TAXATION

	2019 £'000	2018 £'000
Deferred taxation		
Deferred capital allowances	28	80
Losses and short-term differences	18	4
Net deferred tax asset included in debtors due within one year	46	84
Net deferred tax asset in relation to pension schemes due in more than one year	2,976	2,998
Net deferred tax asset included in debtors	3,022	3,082

	£'000	£'000
Net deferred tax asset at 1 January	3,082	2,861
Deferred tax in profit and loss account (note 10)	(107)	(13)
Deferred tax in other comprehensive income	70	233
Adjustment in respect to prior years	(23)	1
Net deferred tax asset at 31 December	3,022	3,082

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2019

17. PROVISIONS FOR LIABILITIES

	Warranty £'000	Other £'000	Total £'000
At 1 January 2019	-	542	542
Charged to profit and loss account	45	-	45
Utilised	-	(38)	(38)
At 31 December 2019	45	504	549

Product warranties

The provision for product warranties relates to specific warranty claims on products sold.

Other

The company has a building dilapidation provision of £371,000 (2018: £371,000), and restructuring costs of £8,000 (2018: £39,000).

On the 26th October 2018, a High Court judgement was handed down with respect to Lloyds Banking Group Pensions Trustees Limited v Lloyds Bank PLC regarding the requirement for pension schemes to equalise for the effect of inequalities in Guaranteed Minimum Pensions ("GMP") between male and female members, the company has provided £125,000 (2018: £125,000) for legal and actuarial costs to implement this change to the pension schemes. The costs of the GMP additional benefits have been accounted for in the defined benefit pension balances. Other amounts provided include actuarial expenses of £Nil (2018: £7,000).

18. PENSION AND SIMILAR OBLIGATIONS

The company operates four pension schemes providing benefits based on final pensionable salary. The assets of the schemes are held separately from those of the company in separate trustee-administered funds. Funding of the schemes is made based on a proportion of relevant staff salaries with additional annual funding to reduce the deficit as agreed with the trustees under the relevant schedule of contributions.

The company participates in the following pension arrangements:

- Fram Europe Limited Retirement Benefit Plan (defined benefit) (Fram scheme)
- Coopers Filters Limited Retirement Benefit Plan (defined benefit) (Coopers scheme)
- Filtrauto UK Limited Works Scheme (Works scheme)
- Filtrauto UK Limited Staff Scheme (Staff scheme)

The most recent actuarial valuations for FRS 102 purposes were conducted as at 31 December 2019. The valuations of the schemes were conducted by Quantum Advisory using the projected unit method. The principal assumptions for the schemes, together with aggregated information in relation to the schemes, are set out below:

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2019

18. PENSION AND SIMILAR OBLIGATIONS (CONTINUED)

	2019 Works, Staff, Fram and Coopers %	2018 Works, Staff, Fram and Coopers %
Principal assumptions		
Rate of increase in salaries:		
Fram	3.55	3.55
Coopers	n/a	n/a
Rate of increase in pensions in payment:		
Fram	2.10	2.10
Coopers	2.10	2.10
Staff	2.90	3.00
Works	3.00	3.00
Discount rate	2.00	2.80
Inflation assumption – RPI	3.10	3.10
Rate of increase in deferred pensions		
Fram	2.10	2.10
Coopers	2.10	2.10
Staff	3.10	3.00
Works	3.10	3.00

The current mortality assumptions include sufficient allowance for future improvements in mortality rates. The assumed life expectations on retirement at age 65 are:

	2019 Works, Staff, Fram and Coopers	2018 Works, Staff Fram and Coopers
Retiring today		
Males	20.9	21.7
Females	23.2	23.6
Retiring in 20 years		
Males	21.9	22.8
Females	24.4	24.9

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2019

18. PENSION AND SIMILAR OBLIGATIONS (CONTINUED)

The aggregated assets in the schemes were:

	Total value at 31 December 2019 £'000	Total value at 31 December 2018 £'000
Equities	-	-
Absolute return	67,926	69,587
Bonds	40,022	33,694
Alternatives	25,049	15,520
Other	617	2,625
Total market value of assets	133,614	121,426
Actual return on plan assets	17,141	(5,543)

	2019 £'000	2018 £'000
Analysis of movement in the market value of the scheme assets		
Scheme assets at the beginning of the year	121,426	131,540
Interest income	3,331	3,490
Actuarial gain/(loss)	13,810	(9,033)
Contribution by the employer	1,519	1,480
Contribution by scheme participants	5	5
Benefits paid	(5,988)	(5,632)
Non-investment expense	(489)	(424)
Scheme assets at the end of the year	133,614	121,426

	2019 £'000	2018 £'000
Analysis of movement in the present value of scheme liabilities		
Scheme liabilities at the beginning of the year	139,062	144,998
Current service cost	10	9
Interest cost	3,809	3,866
Contributions by scheme participants	5	5
Actuarial loss/(gain)	14,220	(7,660)
Benefits paid	(5,988)	(5,632)
Past service cost	-	3,476
Scheme liabilities at the end of the year	151,118	139,062

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2019

18. PENSION AND SIMILAR OBLIGATIONS (CONTINUED)

	2019 Schemes in deficit £'000	2019 Schemes in surplus £'000	Total value at 31 December 2019 £'000
Schemes			
Works	(1,376)	-	(1,376)
Staff	(3,615)	-	(3,615)
Fram	-	1,359	1,359
Coopers	(13,872)	-	(13,872)
	(18,863)	1,359	(17,504)

	2018 Schemes in deficit £'000	2018 Schemes in surplus £'000	Total value at 31 December 2018 £'000
Schemes			
Works	(1,832)	-	(1,832)
Staff	(3,626)	-	(3,626)
Fram	-	995	995
Coopers	(13,173)	-	(13,173)
	(18,631)	995	(17,636)

Analysis of amount charged to profit or loss

	2019 £'000	2018 £'000
Operating profit		
Current service cost	10	9
Non-investment expenses	489	424
Past service cost	-	3,476
Interest payable and similar expenses		
Net interest charged on defined benefit pension schemes	478	376
Total cost recognised in profit for the financial year	977	4,285

Analysis of amount charged to other comprehensive income

	2019 £'000	2018 £'000
Actuarial (loss)/gain on scheme liabilities	(14,220)	7,660
Actuarial gain/(loss) on scheme assets	13,810	(9,033)
Total income/(expense) recognised in other comprehensive income for the financial year	**(410)**	**(1,373)**

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2019

18. PENSION AND SIMILAR OBLIGATIONS (CONTINUED)

	2019 £'000	2018 £'000
Defined contribution scheme	356	407

The outstanding contributions due to the schemes at the year-end represented the unpaid contributions for December and were as follows:

	2019 £'000	2018 £'000
Defined contribution scheme	60	45

19. CALLED UP SHARE CAPITAL

	2019 £'000	2018 £'000
Allotted, called up and fully paid		
5,126,737 ordinary shares of £1 each	5,127	5,127

20. RESERVES

Share premium

This reserve represents the excess of amounts subscribed for issued shares over the nominal value of the shares.

Profit and loss account

This reserve relates to the cumulative retained profits and losses and other comprehensive income less amounts distributed to shareholders.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2019

21. FINANCIAL COMMITMENTS

Operating leases

The future minimum lease payments under non-cancellable operating leases are as follows:

	2019		2018	
	Land £'000	**Other £'000**	**Land £'000**	**Other £'000**
Due within one year	90	130	88	145
Due between two and five years	158	236	242	65
Due after five years	-	-	-	-
	248	366	330	210
Lease payments under operating leases recognised as an expense in the year	101	163	88	173

22. ULTIMATE PARENT UNDERTAKING

The immediate parent company is Sogefi Filtration SA. The ultimate parent company is CIR SpA, which is the parent undertaking of the smallest and largest group to consolidate these financial statements. Copies of the group financial statements of CIR SpA may be obtained from CIR SpA, Via Ciovassino 1/a 20121, Italy. www.cirgroup.com