

MAHLE Powertrain Limited

Annual report and financial
statements

Registered number 03565155

31 December 2019



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Directors and Other Information

Directors

F Tuerk
M Berger
S Ferguson
J Stratmann

Independent Auditors

PricewaterhouseCoopers LLP
One Chamberlain Square
Birmingham B3 3AX

Bankers

HSBC
Level 37
Canada Square
London E14 5HQ

Solicitors

Gregory Rowcliffe Milners
1 Bedford Row
London WC1R 4BZ

Registered Office

Costin House
St James Mill Road
Northampton NN5 5TZ

Strategic report

The directors present their strategic report for the year ended 31 December 2019.

Principal activities

The principal activity of the company is the engineering and manufacture of components for the automotive industry to meet the specialist needs of vehicle manufacturers with:

- Engine and powertrain design and development
- Vehicle information products and diagnostic systems
- Low volume engine manufacture and assembly

Review of the business

The profit for the financial year amounted to £3,018,000 (2018: profit of £203,000).

The net asset position of the company is £37,098,000 at 31 December 2019 (2018: 43,931,000).

The directors paid a final dividend of £10,000,000 (2018: £8,000,000).

The company continues to be the sponsoring company of the MAHLE Powertrain Limited defined benefit pension scheme (the MAHLE Powertrain Pension Scheme, MPPS). The year-end accounting figures for the Defined Benefit Pension scheme presented in 31 December 2019 a total surplus of £21,006,000 versus £18,048,000 in December 2018. This scheme is closed to future benefit accrual and MAHLE Powertrain Limited will continue to contribute to the scheme should a future deficit arise.

During 2018, the company carried out an equity restructure. The share capital was reduced from £35,553,000 to £10,000,000, the capital redemption reserve reduced from £5,634,000 to £nil and the capital contribution reserve was reduced from £40,700,000 to £nil. The net positive effect on retained earnings was £71,867,000 thus creating future distributable reserves.

Operational review

2019 has seen some confusion from the public in regard of new vehicle technologies. This was reflected in a downturn in new vehicle sales, which affected our biggest customer. This led to a reduction in the value of projects which are outsourced and significant reduction in demand for our service in certain areas of the business. The decision was therefore taken to restructure these areas in order to remain competitive.

Business development activity continues to maintain a high profile within the company and we have worked hard to diversify the customer base in 2019. We continue to make use of our parent MAHLE GmbH's global presence and sales network.

It is already clear that 2020 will be an extremely difficult year for the MAHLE Group. The SARS-CoV-2 coronavirus pandemic, the comprehensive measures to protect employees, the impact of transformation accompanied by volatile markets and declining vehicle production will have a significant impact on business performance in 2020. Profitability remains top priority for 2020 as the company focuses on how best to navigate through the coronavirus pandemic.

MAHLE Powertrain Limited continues to perform research activities to ensure it maintains its competitiveness in the area of powertrain design and development. Further initiatives by the Government have intensified interest in electric vehicles. MAHLE Powertrain has therefore invested in facilities to support this. The continued development of legislation has required a clear focus on further development of the internal combustion engine, where we maintain our levels research and development to improve efficiency.

Strategic report (continued)

Operational review (continued)

Much of this work has been conducted internally, and in conjunction with academic institutions, vehicle Original Equipment Manufacturers and government bodies. Technical papers reporting the results of this work have been presented at major global automotive conferences.

Typical topics which have been investigated are electric propulsion systems including motors and batteries alongside whole vehicle powertrain control. This sits alongside traditional areas of research for combustion engines, including reduction of CO₂ and other exhaust gas emissions, alternative fuels, combustion, and engine calibration. Together this will allow the company to move forward with an integrated approach to powertrain design and development.

All of this knowledge was successfully integrated into a concept for a modular hybrid powertrain for MAHLE. This concept has been the topic of several papers in automotive conferences globally and received much interest from existing and new customers.

Research on the development of technologies for electrification of vehicles continues alongside widening of conventional powertrain capabilities. One notable area of capability growth was the opening of the automotive battery testing facility. This has generated new customer interest.

The company has KPI's for Employee Fluctuation based on employee retention and Health & Safety training. Continuous improvement remains a key focus.

Financial review

The business' key financial indicators which deal with sales, margin, inventories, capital employed, overheads and employees have been identified and are monitored monthly as part of the company's internal and group reporting structure. These measures are all reported in the financial statements.

Key performance indicators

Key Performance Indicator	2019	2018	Reason for Movement
<i>Return on Sales (ROS)</i>	11.9%	0.6%	The improved performance in 2019 is due to the receipt of a £2M R&D Tax Claim
<i>Return on Capital Employed (ROCE)</i>	7.2%	1.03%	

Principal risks and uncertainties

The outbreak of COVID-19 pandemic has presented major global challenges. The impact of which is unprecedented. The automotive market experienced a sudden huge sales downturn which has resulted in significant lower sales demand. The MAHLE Group response to the COVID-19 crisis was immediately initiated with several measures implemented across all global operations including short-time work and other forms of capacity adjustments. The company's priority has been to protect the Health and Safety of employees and their respective families by strictly following best practices in order to avoid the spread of the corona virus. In the UK, after a sharp downturn in March, a slow recovery on sales and respective production started in May and a progressive market recovery is being noticed. In addition, the liquidity performance of the company has been protected by cost discipline measures implemented across all operations.

Strategic report (continued)

Principal risks and uncertainties (continued)

The company also faces risks for post BREXIT trade. In 2018 MAHLE established an interdisciplinary team in Europe to analyse the effect of different Brexit scenarios. The focus was to mitigate any risks and ensure minimised disruption regarding the free movement of goods, personnel, finances and services. The company continues to monitor the negotiations and will take the appropriate steps as the BREXIT negotiations are finalised.

Market risk

As outlined in the business review, the competitive nature of the global automotive market poses significant risks for the company. Diverging technical direction from within the customer base is also causing some uncertainty and opportunities. The company aims to minimise the risk with its focus on business development activity and invest in new capabilities.

Operational risk

The company utilises machinery, electronic equipment and a uses variety of fuels in its processes, the company takes its health and safety responsibilities very seriously with a high focus on employee training. Further efforts are focused on developing and improving processes to support new and existing projects and services. The company makes sure internal and external sign off procedures are in place for all contractual processes.

Financial risk management

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

The policies set by the board of directors are implemented by the company's finance department.

Credit risk

The company has implemented policies that require appropriate credit checks on potential customers before sales are made. Debt finance is not utilised.

Liquidity risk

The company retains sufficient cash to ensure it has sufficient funds available for operations. The company participates in a UK cash pooling arrangement with other UK related companies, guaranteed by the ultimate parent undertaking. In addition, the company would have access to longer term funding from its ultimate parent if required. The directors pay close attention to the collection of monies due from customers.

Interest rate risk

The company is exposed to interest rate risk. The interest charged on any overdrafts within the Group cash-pooling arrangement is LIBOR plus 2.5%. The rate for credit balances is currently LIBOR.

Foreign exchange rate risk

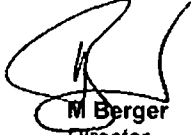
The company is exposed to some foreign exchange rate risk as a result of its operations. The company has a policy of hedging this risk and places forward contracts from time to time to manage this risk. Forward contracts placed by a related company on the net UK exposure were in place at the statement of financial position date.

Strategic report (continued)

On behalf of the board


F Tuerk
Director

Date 30th November 2020


M Berger
Director

Date 30th November 2020

Directors' report

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

Directors

The directors who served the company during the year and up to the date of signing the financial statements were as follows:

F Tuerk
M Berger
S Ferguson
J Stratmann

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.

Dividend

The company paid a final dividend for the year of £10,000,000 (2018: £8,000,000).

Review of the business and principal risks and uncertainties

The review of the business for 2019 and disclosures regarding principal risks and uncertainties are reported within the Strategic Report.

Research and development

The company continues to invest in research and development of new products. This amounted to £1,220,000 in 2019 (2018: £1,301,000) of which £nil (2018: £nil) has been capitalised during the year with all costs being written off to the statement of comprehensive income. The directors regard the investment in research and development as integral to the continuing success of the company and ensuring that the company provides its customers with high quality products.

Future developments

In 2019 MAHLE Powertrain Limited opened its battery testing facility. The new facility will enable the testing of batteries for automotive applications as required by our customers.

For 2020, MAHLE Powertrain Limited will increase its focus on new capabilities for powertrain electrification alongside development of novel combustion and alternative fuels to ensure the internal combustion engine can meet the near-term targets.

Events since the statement of financial position date

The disclosures regarding events since the financial position date are reported within the Strategic Report under the heading Operational review.

Financial instruments

The company is exposed to foreign exchange rate risk as a result of some of its operations. The company has a policy of hedging this risk using derivative financial instruments in the form of forward exchange rate contracts. Forward contracts were in place with MAHLE Industries UK Limited at the statement of financial position date.

Directors' report (continued)

Going concern

The Company participates in a UK cash pooling arrangement with other related UK companies, guaranteed by the ultimate parent undertaking. The directors have assessed the ability of the company to continue as a going concern as part of their annual strategic review and assessment of future cash flows within the company and the related UK companies. The company has access to longer term funding from the ultimate parent undertaking if required. The directors believe that given the financing available the Company can meet its liabilities as they fall due and the financial statements have been prepared on a going concern basis.

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities 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 the appropriate training is arranged. It is the policy of the company that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

Employee involvement

Consultation with employees or their representatives has continued at all levels, with the aim of ensuring that views are taken into account when decisions are made that are likely to affect their interests and that all employees are aware of the financial and economic performance of their business units and the Company as a whole. There is communication with all employees through electronic mail, notice boards, newsletters, team briefing groups and presentations.

Disclosure of information to the auditors

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 auditors are unaware; and each director has taken all the steps that ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.


Re-appointment of auditors

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

On behalf of the board


F Tuerk
Director

Date ~~30th~~ November 2020


M Berger
Director

Date ~~30th~~ November 2020

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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.

Directors' confirmations

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

On behalf of the board


F Tuerk
Director


M Berger
Director

Date 30th November 2020

Date 30th November 2020

Independent auditors' report to the members of MAHLE Powertrain Limited

Report on the audit of the financial statements

Opinion

In our opinion, MAHLE Powertrain Limited's 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Statement of financial position as at 31 December 2019; the Statement of comprehensive income, the Statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

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

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

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.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

Independent auditors' report to the members of MAHLE Powertrain Limited (continued)

Reporting on other information (continued)

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities. With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

- *Strategic Report and Directors' Report*

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

- **Responsibilities for the financial statements and the audit**

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of the Directors' Responsibilities in respect of the financial statements set out on page [7], the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also 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.

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.

Auditors' 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 auditors' 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.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Independent auditors' report to the members of MAHLE Powertrain Limited (continued)

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.



Matthew Walker (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
1 December 2020

Statement of comprehensive income

for the year ended 31 December 2019

	Note	2019 £000	2018 £000
Revenue	2	25,350	36,872
Cost of sales		(21,170)	(31,287)
Gross profit		4,180	5,585
Distribution costs		(791)	(1,501)
Administrative expenses		(457)	(386)
Loss on disposal of tangible assets		-	(791)
Exceptional administrative expenses	3	(245)	(2,445)
Operating profit	3	2,687	462
Interest receivable and similar income	6	182	174
Interest payable and similar expenses	7	(2)	(74)
Profit before taxation		2,867	562
Tax on profit	8	151	(359)
Profit for the financial year		3,018	203
Other comprehensive income			
Actuarial gain on defined benefit pension scheme	15	149	3,101
Total comprehensive income for the year		3,167	3,304

The above results all relate to continuing operations.

Statement of financial position

as at 31 December 2019

	Note	2019 £000	£000	2018 £000	£000
Fixed assets					
Tangible assets	9	15,075		15,864	
		<hr/>	15,075	<hr/>	15,864
Current assets					
Stocks	10	206		197	
Debtors	11	28,864		37,578	
Cash at bank and in hand		185		103	
		<hr/>		<hr/>	
Creditors: amounts falling due within one year	12	29,255 (7,217)		37,878 (9,590)	
		<hr/>	22,038	<hr/>	28,288
Net current assets			22,038		28,288
			<hr/>		<hr/>
Total assets less current liabilities			37,113		44,152
Creditors: amounts falling due after more than one year	13	(13)		(2)	
Post-employment benefits	15	-		-	
Provisions for liabilities	14/16	(2)		(219)	
		<hr/>	(15)	<hr/>	(221)
Net assets			37,098		43,931
			<hr/>		<hr/>
Capital and reserves					
Called up share capital	17		10,000		10,000
Capital redemption reserve			-		-
Capital contribution reserve			-		-
Retained earnings			27,098		33,931
			<hr/>		<hr/>
Total equity			37,098		43,931
			<hr/>		<hr/>

The financial statements on pages 12 to 34 were approved by the Board of Directors on 3rd November 2020 and signed on its behalf by:



F Tuerk
Director



M Berger
Director

Company registered number: 03565155.

Statement of changes in equity

for the year ended 31 December 2019

	Called up share capital £000	Capital redemption reserve £000	Capital contribution reserve £000	Retained earnings £000	Total equity £000
Balance as at 1 January 2018	35,533	5,634	40,700	(33,240)	48,627
Profit for the financial year	-	-	-	203	203
Other comprehensive income	-	-	-	3,101	3,101
Total comprehensive income for the year	-	-	-	3,304	3,304
Capital restructure	(25,533)	(5,634)	(40,700)	71,867	-
Dividends paid	-	-	-	(8,000)	(8,000)
Balance as at 31 December and 1 January 2019	10,000	-	-	33,931	43,931
Profit for the financial year	-	-	-	3,018	3,018
Other comprehensive income	-	-	-	149	149
Total comprehensive income for the year	-	-	-	3,167	3,167
Dividends paid	-	-	-	(10,000)	(10,000)
Balance as at 31 December 2019	10,000	-	-	27,098	37,098

Notes to the financial statements

1 Accounting policies

MAHLE Powertrain Limited (the "Company") is a private company limited by shares and incorporated and domiciled in the UK.

The financial statements of UK GAAP Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' ('FRS 102') and the Companies Act 2006.

The functional and presentational currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

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

The Company's ultimate parent undertaking, MAHLE GmbH includes the Company in its consolidated financial statements. The consolidated financial statements of MAHLE GmbH are prepared in accordance with German GAAP and are available to the public and may be obtained from MAHLE GmbH, Pragstrasse 26-46, 70376 Stuttgart, Germany. In these financial statements, the company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Cash Flow Statement and related notes (FRS 102 paragraph 1.12(b)); and
- Key Management Personnel compensation (FRS 102 paragraph 33.7).

1.1 Foreign currency

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

1.2 Basic financial instruments

The company has chosen to adopt the sections 11 and 12 of FRS 102 in respect of financial instruments.

1.2.1 Basic financial instruments

Trade and other debtors / creditors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors.

Cash and cash equivalents

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

Notes to the financial statements (continued)

1 Accounting policies (continued)

1.2.2 Other financial instruments

Derivative instruments

The company uses forward foreign currency contracts to reduce exposure to foreign exchange rates.

Derivative financial instruments are initially measured at fair value on the date on which a derivative contract is entered into and are subsequently measured at fair value through profit or loss. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The fair value of the forward currency contracts is calculated by reference to current forward exchange contracts with similar maturity profiles.

1.2.3 Offsetting

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

1.3 Tangible assets

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

Where parts of an item of tangible assets have different useful lives, they are accounted for as separate items of tangible assets, for example land is treated separately from buildings.

The company assesses at each reporting date whether tangible assets (including those leased under a finance lease) are impaired.

Depreciation is charged to the income statement account on a straight-line basis over the useful economic lives of each part of an item of tangible assets. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The useful economic lives are as follows:

- buildings 10 to 40 years
- plant and equipment 5 to 15 years
- office and other equipment 3 to 10 years

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the company expects to consume an asset's future economic benefits.

1.4 Government grants

Government grants are included within accruals and deferred income in the statement of financial position and credited to the income statement account over the expected useful lives of the assets to which they relate or in periods in which the related costs are incurred.

1.5 Engineering contract debtors

Engineering contract debtors represent the gross unbilled amount for contract work performed to date. They are measured at cost plus profit recognised to date (see the revenue accounting policy) less a provision for foreseeable losses and less progress billings. Variations are included in contract revenue when they are reliably measurable and it is probable that the customer will approve the variation itself and the revenue arising from the variation. Claims are included in contract revenue only when they are reliably measurable and negotiations have reached an advanced stage such that it is probable that the customer will accept the claim. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Company's contract activities based on normal operating capacity.

Engineering contract debtors are presented as part of debtors in the statement of financial position. If payments received from customers exceed the income recognised, then the difference is presented as accruals and deferred income in the statement of financial position.

Notes to the financial statements (continued)

1 Accounting policies (continued)

1.6 Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost is based on the first-in first-out 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.

1.7 Employee benefits

Defined contribution plans and other long term employee benefits

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 income statement 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 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. The fair value of any plan assets is deducted. The Company determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate as determined at the beginning of the annual period to the net defined benefit liability (asset) taking account of changes arising as a result of contributions and benefit payments.

The discount rate is the yield at the statement of financial position date on AA credit rated bonds denominated in the currency of and having maturity dates approximating to the terms of the Company's obligations. A valuation is performed annually by a qualified actuary using the projected unit credit method. The Company recognises net defined benefit plan assets to the extent that it is able to recover the surplus either through reduced contributions in the future or through refunds from the plan.

Changes in the net defined benefit liability arising from employee service rendered during the period, net interest on net defined benefit liability, and the cost of plan introductions, benefit changes, curtailments and settlements during the period are recognised in profit or loss.

Re-measurement of the net defined benefit liability/asset is recognised in other comprehensive income in the period in which it occurs.

Termination benefits

Termination benefits are recognised as an expense when the company is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the company has made an offer of voluntary redundancy, it is probably that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

1.8 Provisions

A provision is recognised in the statement of financial position when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

Notes to the financial statements (continued)

1 Accounting policies (continued)

1.9 Revenue

Revenue is recognised to the extent that the company obtains the right to consideration in exchange for its performance. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duty. The following criteria must also be met before revenue is recognised:

Sale of goods

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

Recognition for long-term contracts

Revenue associated to the completion of engineering contracts is recognised as the contract activity progresses to reflect the partial performance of the contractual obligations. The amount of revenue recognised will reflect the value of the work performed. Where contracts are assessed as loss making, provisions are recognised immediately as they occur.

1.10 Expenses

Operating lease

Payments made under operating leases are recognised in the income statement account on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in income statement over the term of the lease as an integral part of the total lease expense.

Interest receivable and Interest payable

Interest income and interest payable are recognised in profit or loss as they occur and any accrual is calculated using the effective interest method.

1.11 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement 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 statement of financial position date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met; to the extent that it is not probable that they will reverse in the foreseeable future and the reporting entity is able to control the reversal of the timing difference. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the statement of financial position date. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Notes to the financial statements (continued)

1 Accounting policies (continued)

1.12 Going concern

The company meets its day-to-day working capital requirements through its bank facilities. The company participates in a UK cash pooling arrangement with other related UK companies, guaranteed by the ultimate parent undertaking. In addition, it has access to longer term funding from the ultimate parent undertaking if required and also has a letter of support issued by the ultimate parent company.

The company's forecasts and projections, taking account of reasonably possible changes in performance, show that the company should be able to operate within the level of its current facilities. The directors have reasonable expectations that the company has adequate resources to continue in operational existence for the foreseeable future. The company therefore continues to adopt the going concern basis in preparing its financial statements.

1.13 Share capital and distributions to equity holders

Ordinary shares are classified as equity. Dividends and other distributions to company's shareholders are recognised as a liability in the financial statements in the period in which the dividends and other distributions are approved by the company's shareholders. These amounts are recognised in the statement of changes in equity.

1.14 Related party transactions

The company discloses transactions with related parties which are not wholly owned by the same group. It does not disclose transactions with members of the same group that are wholly owned.

1.15 Exceptionals

Exceptional items are transactions that fall within the ordinary activities of the Company but are presented separately due to their size or incidence.

1.16 Critical accounting judgements and estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are listed below.

Revenue recognition

Part of the company's sales are generated from long term contracts. Before profit can be recognised, managerial judgment is applied with regard to contractual performance and estimation of the final outcome of the contract. Estimates are also necessary to determine total contract costs and whether any loss provisions are to be made.

Useful economic lives of tangible assets (note 9)

The annual depreciation charge for tangible assets is sensitive to changes in the estimate useful economic lives and residual values of the assets. The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. See note 9 for the carrying amount of the property, plant and equipment and note 1.3 for the useful economic lives of each class of assets.

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

1.16 Critical accounting judgements and estimation uncertainty *(continued)*

Accruals and deferred income (note 12) and Provisions (note 16)

Accruals are established for short-term liabilities that are known and for those risks that are identifiable at the statement of financial position date. The values of the accruals can be based on an expectation of actual cost but can also be estimated on the basis of experience. Examples include restructuring costs, utility charges and personnel costs.

Defined benefit pension scheme (note 15)

The company has an obligation to pay pension benefits to members of the closed defined benefit pension scheme. The cost of these benefits and the present value of the obligation depend on a number of factors, including; life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. These factors are estimated in determining the net pension obligation in the balance sheet. Assumptions made reflect historical experience and current trends.

Notes to the financial statements (continued)

2 Revenue

	2019	2018
	£000	£000
Sale of goods	-	9,578
Engineering contracts – sales of services	25,350	27,294
	<hr/>	<hr/>
Total turnover	25,350	36,872
	<hr/> <hr/>	<hr/> <hr/>
	2019	2018
	£000	£000
By geographical market		
United Kingdom	19,137	30,931
Europe (excluding United Kingdom)	4,507	3,408
USA	673	739
Rest of the world	1,033	1,794
	<hr/>	<hr/>
	25,350	36,872
	<hr/> <hr/>	<hr/> <hr/>

As noted above, company has customers in different geographical markets however the turnover is originated in the UK.

3 Operating profit

This is stated after charging/(crediting)

	2019	2018
	£000	£000
Auditors' remuneration:		
- Audit of financial statements	45	45
- Expat services	4	4
Depreciation of tangible assets (note 9)	1,926	1,835
Foreign exchange loss / (gain)	2	(38)
Research and development expenditure	1,221	1,301
Operating lease rentals	330	191
Government grants	(257)	(213)
Net (gain) / loss on disposal of tangible assets	(3)	791
Restructuring costs	245	2,445
	<hr/>	<hr/>

Government grants received in 2018 relate to the HYPACE hybrid engine project which is funded by Innovate UK and The REAL Drive Emissions Facility (RDE) which is funded by SEMLEP. The conditions of the grant have been satisfied; however, monitoring will continue throughout the life of these projects.

Notes to the financial statements (continued)

4 Staff numbers and costs

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

	2019 Number	2018 Number
Production	5	34
Selling and distribution	4	6
Administration	17	20
Development	212	231
	<hr/>	<hr/>
	238	291
	<hr/> <hr/>	<hr/> <hr/>

The aggregate payroll costs of these persons were as follows:

	2019 £000	2018 £000
Wages and salaries	11,512	13,473
Social security costs	1,397	1,538
Other pension costs	837	1,992
	<hr/>	<hr/>
	13,746	17,003
	<hr/> <hr/>	<hr/> <hr/>

5 Directors' remuneration

	2019 £000	2018 £000
Directors' remuneration	7	7
	<hr/> <hr/>	<hr/> <hr/>

The company made no pension contributions in respect of the highest paid director.

Directors of the company who served during the year were employed by other group companies within the MAHLE Group and did not receive emoluments from MAHLE Powertrain Limited. F Tuerk, W Scheider and J Stratmann are employed by MAHLE GmbH and M Berger is employed by MAHLE Powertrain GmbH. These directors did not receive any emoluments from any other party specifically for services as a director of MAHLE Powertrain Limited and it is not possible to make an accurate apportionment of the directors' emoluments received from other group companies in respect of their services to MAHLE Powertrain Limited. Accordingly, these financial statements include £nil emoluments for these directors (2018: £nil).

Notes to the financial statements (continued)

6 Interest receivable and similar income

	2019 £000	2018 £000
Interest received - group companies	182	174
	<hr/>	<hr/>
Total other interest received and similar income	<u>182</u>	<u>174</u>

7 Interest payable and similar expenses

	2019 £000	2018 £000
Interest payable - group companies	2	21
Net interest expense on the net defined benefit pension liability	-	53
	<hr/>	<hr/>
Total other interest payable and similar expenses	<u>2</u>	<u>74</u>

8 Tax on profit

Total current tax expense recognised in the statement of comprehensive income

	2019 £000	£000	2018 £000	£000
<i>Current tax</i>				
Current tax on income for the year	524		(6)	
	<hr/>		<hr/>	
Total current tax		524		(6)
<i>Deferred tax (see note 14)</i>				
Origination and reversal of timing differences	(720)		365	
Prior year movement	45		-	
	<hr/>		<hr/>	
Total deferred tax		(676)		365
		<hr/>		<hr/>
Total tax		<u>(151)</u>		<u>359</u>

Notes to the financial statements (continued)

8 Tax on profit / (loss) (continued)

Reconciliation of effective tax rate

In the Spring Budget 2020, the Government announced that from 1 April 2020 the corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). This new law was substantively enacted on 17 March 2020. As the proposal to keep the rate at 19% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements. However, it is likely that the overall effect of the change, had it been substantively enacted by the balance sheet date, would be to increase the tax credit for the period by £131,000, to increase the deferred tax asset by £131,000.

Deferred tax has been recognised in the financial statements at the rate at which it is expected to reverse.

	2019 £000	2018 £000
Profit for the year	3,018	203
Total tax (credit) / charge	(151)	359
	<hr/>	<hr/>
Profit excluding taxation	2,867	562
Tax using the UK corporation tax rate of 19% (2018: 19%)	545	107
Non-deductible expenses	(328)	(255)
Group relief claimed	(492)	-
Non-UK income tax	115	-
Movement in unrecognised deferred tax	(497)	296
Change in rate on deferred tax balances	-	133
Prior year corporation tax and deferred tax	52	78
Tax on R&D credit received	409	-
Prior year deferred tax movement	45	-
	<hr/>	<hr/>
Total tax (credit) / charge included in profit or loss	(151)	359
	<hr/>	<hr/>

Notes to the financial statements (continued)

9 Tangible assets

	Land and buildings £000	Plant and equipment £000	Office and other equipment £000	Under construction £000	Total £000
Cost					
Balance at 1 January 2019	8,533	23,386	5,389	157	37,465
Additions	-	689	126	322	1,137
Disposals	-	-	(53)	-	(53)
Transfers	-	157	-	(157)	-
Balance at 31 December 2019	8,533	24,232	5,462	322	38,549
Accumulated depreciation					
Balance at 1 January 2019	(2,410)	(14,062)	(5,129)	-	(21,601)
Depreciation charge for the year	(192)	(1,603)	(131)	-	(1,926)
Disposals	-	-	53	-	53
Balance at 31 December 2019	(2,602)	(15,665)	(5,207)	-	(23,474)
Net book value					
At 31 December 2018	6,123	9,324	260	157	15,864
At 31 December 2019	5,931	8,567	255	322	15,075

Land and Buildings

The net book value of land and buildings comprises:

	2019 £000	2018 £000
Freehold	1,336	1,336
	1,336	1,336

Notes to the financial statements *(continued)*

10 Stocks

	2019	2018
	£000	£000
Raw materials and consumables	206	197
	206	197
	206	197

There is no significant difference between the replacement cost of stock and their carrying amounts.

Raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales in the year amounted to £1,512,700 (2018: £7,229,000).

Inventories are stated after provisions for impairment of £nil (2018: £nil).

11 Debtors

	2019	2018
	£000	£000
Trade debtors	4,362	3,515
Amounts owed by group undertakings – trade	432	1,649
Amounts owed by group undertakings – loan	21,353	30,467
Other debtors	10	1
Deferred tax assets (note 14)	1,251	578
Derivative financial instruments (note 18)	15	27
Amounts recoverable on contracts	969	1,116
Prepayments and accrued income	472	225
	28,864	37,578
	28,864	37,578
Due within one year	28,864	37,575
Due after more than one year	-	3
	28,864	37,578
	28,864	37,578

Trade debtors are stated after provisions for impairment of £nil (2018: £nil).

Amounts owed by group undertakings - trade are unsecured, interest free and repayable on demand.

Amounts owed by group undertakings - loan are unsecured, interest bearing and repayable on demand.

Amounts owed by group undertakings - loan is a multi-currency net-nil facility and cash pooling arrangement with HSBC plc plus a EUR cash pooling arrangement with MAHLE GmbH. The other participants in these arrangements are MAHLE Filter Systems UK Limited, MAHLE Industries UK Limited, MAHLE Engine Systems UK Limited and MAHLE Aftermarket Limited.

Notes to the financial statements (continued)

12 Creditors: amounts falling due within one year

	2019 £000	2018 £000
Payments received on account	1,521	2,388
Trade creditors	943	541
Amounts owed to group undertakings - trade	372	527
Other taxation and social security	926	1,140
Derivative financial instruments (note 18)	51	34
Deferred tax liability	2	5
Accruals and deferred income	3,402	4,955
	7,217	9,590
	7,217	9,590

Amounts owed to group undertakings - trade are unsecured, interest free and repayable on demand.

13 Creditors: amounts falling due after more than one year

	2019 £000	2018 £000
Derivative financial instruments (note 18)	13	2
	13	2
	13	2

Notes to the financial statements (continued)

14 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2019 £000	2018 £000	2019 £000	2018 £000	2019 £000	2018 £000
Accelerated capital allowances	1,220	482	-	-	1,220	482
Arising on provisions	20	53	-	-	20	53
Losses carried forward	-	36	-	-	-	36
Derivatives	11	7	(2)	(5)	9	2
Tax assets / (liabilities)	1,251	578	(2)	(5)	1,249	573
Net tax assets / (liabilities)	1,251	578	(2)	(5)	1,249	573

The following further deferred tax assets have not been recognised due to the uncertainty of their recovery in the foreseeable future. These potential deferred tax assets would be deemed recoverable in the event that sufficient taxable profits are generated.

	2019 £000	2018 £000
Accelerated capital allowances	1,438	1,157
Unrecognised deferred tax assets	1,438	1,157

The amount of the net reversal of deferred tax expected to occur next year is £496,000 relating to the reversal of existing timing differences on tangible fixed assets, derivatives and other accruals allowed when paid.

The unrecognised deferred tax asset associated to the pension scheme at year end is £nil (2018: £nil).

Notes to the financial statements (continued)

15 Pensions and similar obligations

Defined benefit scheme

The company operates a pension scheme, The MAHLE Powertrain Pension Scheme. This is an approved funded pension scheme. The assets of the scheme are held separately from the assets of the company in trustee administered funds. The scheme provides benefits on a defined benefit basis and the following disclosures relate to the defined benefit scheme alone. Contributions to the scheme are assessed in accordance with the advice of a qualified actuary. The last actuarial calculation was 30 September 2017.

The amount recognised in the statement of comprehensive income is as follows:

	2019 £000	2018 £000
Defined benefit scheme		
- Past service cost	-	1,131
Defined contribution scheme	837	861
	<hr/>	<hr/>
Total charge in operating profit	837	1,992
Defined benefit scheme		
- Net interest expense	-	53
	<hr/>	<hr/>
Total charge	<u>837</u>	<u>2,045</u>

Main assumptions

The following assumptions have been used to value on the retirement benefit obligations of the company:

	2019 %	2018 %
Rates assumed per annum:		
Liability discount rate	2.05	2.85
Price inflation (RPI)	2.95	3.35
Price inflation (CPI)	1.95	2.65
Rate of increase in pensions in payment	2.40	2.45
Male life expectancy at age 65	22.4	22.4
Female life expectancy at age 65	24.4	24.3

Notes to the financial statements (continued)

15 Pensions and similar obligations (continued)

The company's net pension liability recognised in the company's statement of financial position at 31 December is as follows:

	2019 £000	2018 £000
Diversified growth fund	19,257	17,488
Bonds	52,099	45,230
Diversified credit fund	45,107	43,515
Cash and other investments	670	265
	<hr/>	<hr/>
Total market value of assets	117,133	106,498
Present value of liabilities	(96,127)	(88,450)
Unrecognised surplus	(21,006)	(18,048)
	<hr/>	<hr/>
Net deficit	-	-
	<hr/> <hr/>	<hr/> <hr/>

The expected return on equities is related to gilt yields. The expected return on bonds is a weighted average of gilt and corporate bond returns. The expected return on cash is based on the Bank of England base rate.

A guarantee exists provided by the parent company MAHLE GmbH, to secure up to £4.1m of any future deficit. As a result of the scheme being closed to future accrual no current year service cost has been incurred during the year.

An analysis of the amount debited to other financing costs is as follows:

	2019 £000	2018 £000
Net interest on net defined benefit liability	-	53
	<hr/>	<hr/>
	-	53
	<hr/> <hr/>	<hr/> <hr/>

An analysis of the amount recognised in other comprehensive income is as follows:

	2019 £000	2018 £000
Actuarial (losses) / gains arising from changes in financial assumptions	(7,144)	12,535
Actuarial gains from changes in demographic assumptions	-	3,160
Experience gains on liabilities	-	10,077
Experience gains / (losses) on assets	10,251	(4,623)
Effect of the asset ceiling	(2,958)	(18,048)
	<hr/>	<hr/>
	149	3,101
	<hr/> <hr/>	<hr/> <hr/>

Notes to the financial statements *(continued)*

15 Pensions and similar obligations *(continued)*

An analysis of the change in the present value of plan assets in the year is as follows:

	2019 £000	2018 £000
Fair value of plan assets at beginning of the year	106,498	110,353
Interest Income	2,493	2,677
Return on scheme assets excluding interest income	10,251	(4,653)
Contributions paid by employer	-	260
Benefits paid	(1,960)	(2,139)
Scheme administration expenses	(149)	-
	117,133	106,498
	117,133	106,498

	2019 £000	2018 £000
Actual return on pension scheme assets	12,744	(1,976)

An analysis of the change in the present value of plan liabilities in the year is as follows:

	2019 £000	2018 £000
Present value of plan liabilities at beginning of the year	88,450	112,500
Interest on pension liabilities	2,493	2,730
Changes in assumptions underlying the plan liabilities	7,144	(12,535)
Benefits paid	(1,960)	(2,139)
Actuarial gains from changes in demographic assumptions	-	(3,160)
Experience gains	-	(10,077)
Past service cost	-	1,131
	96,127	88,450
	96,127	88,450

The past service cost includes of equalisation of pension benefits for men and women in relation to guaranteed minimum pension benefits.

Employer contributions

The company contributed £nil to the pension plan in 2019 (2018: £nil).

Defined contribution scheme

The company also operates a defined contribution scheme via a stakeholder arrangement:

	2019 £000	2018 £000
Employer's contributions	837	861
	837	861
Contributions outstanding at statement of financial position date	114	111
	114	111

Notes to the financial statements *(continued)*

16 Other provisions

	Restructuring £000	Deferred Tax £000	Total £000
Balance at 1 January 2019	214	5	219
Provisions made during the year	245	2	247
Provisions used during the year	(459)	(5)	(464)
	<hr/>	<hr/>	<hr/>
Balance at 31 December 2019	-	2	2
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

17 Called up share capital

Share capital

	2019 £000	2018 £000
<i>Allotted, called up and fully paid</i>		
10,000,000 (2018: 10,000,000) ordinary shares of £1 each	10,000	10,000
	<hr/>	<hr/>
	10,000	10,000
	<hr/> <hr/>	<hr/> <hr/>
Shares classified in shareholders' funds	10,000	10,000
	<hr/>	<hr/>
	10,000	10,000
	<hr/> <hr/>	<hr/> <hr/>

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

Notes to the financial statements *(continued)*

18 Financial instruments

The company has the following financial instruments:

	2019 £000	2018 £000
Financial assets at fair value through profit or loss		
- Derivative financial instruments	15	27
	<hr/>	<hr/>
Financial assets that are debt instruments measured at amortised cost		
- Trade debtors	4,362	3,515
- Amounts owed by group undertakings	21,785	32,116
- Amounts recoverable on contracts	969	1,116
	<hr/>	<hr/>
	27,116	36,747
	<hr/>	<hr/>
Financial liabilities measured at fair value through profit or loss		
- Derivative financial instruments	64	34
	<hr/>	<hr/>
Financial liabilities measured at amortised cost		
- Trade creditors	943	541
- Amounts owed to group undertakings	372	527
- Accruals and deferred income	3,402	4,955
- Payments received on account	1,521	2,388
	<hr/>	<hr/>
	6,238	8,411
	<hr/>	<hr/>

Derivative financial instruments

The company enters into forward foreign currency contracts to mitigate the exchange rate risk for foreign currency payables and receivables. At 31 December 2019, the outstanding contracts all mature within 23 months of the year end. The company committed to buy €1,112,000 (2018: €945,000) and pay a fixed sterling amount.

The fair value of the forward currency contracts is calculated by reference to current forward exchange contracts with similar maturity profiles. The key assumption used in valuing the derivatives is the forward exchange rate for GBP:EUR.

Notes to the financial statements *(continued)*

19 Operating leases

Non-cancellable operating lease future minimum lease rentals are payable as follows:

	2019 £000	2018 £000
Less than one year	96	97
Between one and five years	46	107
More than five years	5	13
	147	217

During the year £330,000 was recognised as an expense in the income statement account in respect of operating leases (2018: £191,000).

20 Commitments

The Company contractual commitments to purchase tangible fixed assets at the year-end were £124,000 (2018: £179,000).

21 Related parties

During the year, the company sold £3,600 (2018: £10,600) of goods to MAHLE Behr GmbH & Co. KG which is 62.46% owned by MAHLE GmbH. At the year-end £nil (2018: £nil) was outstanding and included in Debtors. The receivable is unsecured and due in 60 days.

During the year, the company purchased £4,100 (2018: £200) of services from MAHLE Behr GmbH & Co. KG which is 62.46% owned by MAHLE GmbH and £nil of services from MAHLE Tri-Ring Valve Train (Hubei) Co Ltd which is 65.0% owned by MAHLE GmbH. At the year-end £nil (2018: £nil) to MAHLE Behr GmbH & Co KG and £nil (2018 £3,100) to MAHLE Tri-Ring Valve Train (Hubei) Co Ltd was outstanding and included in creditors. The creditor is unsecured and due in 60 days (2018: 60).

The company is exempt from disclosing other related party transactions as they are with other companies that are wholly owned within the group.

22 Ultimate parent company and parent company of larger group

The immediate parent Company is MAHLE Industries UK Limited which is incorporated in Great Britain and registered in England and Wales.

The Company's ultimate parent Company and controlling party is MAHLE GmbH, a Company incorporated in Germany. Copies of the ultimate parent's group financial statements may be obtained from MAHLE GmbH, Pragstrasse 26-46, 70376 Stuttgart, Germany. MAHLE GmbH is also the smallest and largest Company in which MAHLE Powertrain Limited is consolidated.