Castings P.L.C.
Annual Financial Report
DTR 6.3.5 Disclosure
Year ended 31 March 2018

Chairman's Statement

Foundry businesses

The foundries have seen an increase in output and improved profitability compared to the previous year. Our recent investments, particularly in robotic handling, have enabled the rise in productivity. Further investments will continue to be made where cost savings can be identified. It is pleasing to report that William Lee has improved production and productivity. We have also strengthened the management team at William Lee.

CNC Speedwell

We reported at the half year that Mark Lewis had resigned from the Board and as Managing Director of CNC. In the second half year we recruited a new General Manager, Steve Barwell, and a new Technical Director, Quality Director and Financial Controller. We are confident that this team is much stronger and has brought the business under operational control.

It is very disappointing to report a substantial loss at CNC for the year. One of the major issues for much of the year has been an inability to meet customer orders in a timely way, which has resulted in extra transport costs in excess of £1.2m. These costs have been necessary to prevent disruption to our customers' production lines. I am pleased to be able to report that transport costs are now back down to historic levels.

We have also carried out a review of the operations of the company and, as a result, identified certain projects that were not suitable for the group. This has cost us a further £1m in write-downs of capital and tooling equipment. The total financial impact in 2017/18 of the reorganisation of the machining business was a non-recurring cost of £3.3 million.

It will take time before we see the turnaround from the changes being implemented by the new team, including the training of operatives that we have taken on, but we expect the trading results of CNC to improve during the second half of this financial year.

Dividend

I am pleased to report that the directors recommend an increase in the final dividend to 11.12 pence per share to be paid on 17 August 2018. This, together with the interim dividend, gives a total dividend for the year of 14.50 pence per share.

Outlook

It appears at the present time our order book is sound and schedules are increasing. In particular demand for commercial vehicles is currently strong and it is hoped this trend will continue.

Directors

As part of our on-going succession planning, it is our intention to recruit further directors to strengthen the board.

I wish to thank all our employees for their continued hard work and in particular their support during a difficult supply situation.

B. J. Cooke
Chairman

13 June 2018

Business and Financial Review

Overview of business segment performance

The segmental revenue and results for the current and previous years are set out in note 2. An overview of the performance, position and future prospects of each segment, and the relevant KPIs, are set out below.

Key Performance Indicators

The key performance indicators considered by the group are:

- Segmental revenue
- Segmental profit
- EPS
- Net cash
- Dividends per share

Foundry operations

The foundry businesses have experienced an increase in output of 4.2% to 49,200 tonnes and an increase in external sales revenue of 13.6% to £127.0 million.

This year has seen a continuation of the sales mix change of last year with an increase in more complex, machined parts. Of the total output weight for the year, just under 53% related to machined castings compared to 49.5% in the previous year.

In addition to product mix, the average price of steel scrap and other alloys has increased in the year which has increased sales revenue compared to the previous year. Furthermore, the weakened value of sterling has increased the value of reported revenue for invoices denominated in foreign currencies.

The segmental profit has increased to £16.1 million, from £14.5 million in the previous year, which represents a return of 11.0% on total segmental sales (2017 – 11.3%). The reduction in percentage can largely be attributed to the impact of higher raw material prices.

The aligning of production methods across the foundries and productivity improvements have continued with William Lee increasingly contributing to the overall segment profitability. The roll-out of automation within the foundry processing areas has continued with £1.8 million having been invested during the year. This is an area that will continue to be in focus during 2018/19.

With customer requirements forecast to remain steady at the current levels, particularly in the commercial vehicles sector, our focus will be on our continuous efforts to improve productivity through careful investment and further developing production methods.

Machining

The machining business generated total sales of £24.8 million in the year compared to £23.3 million in the previous year. Of the total revenue, 25.2% was generated from external customers compared to 29.9% in 2017.

The segmental result for the year was a loss of £3.95 million (2017 – profit of £1.52 million).

Following the change of management and a full review of the machining operation, certain projects were identified that were not considered suitable for the group. The total cost of exiting these projects was just over £1 million which comprised write-downs of specific capital and tooling equipment and exiting contract commitments to purchase equipment.

In addition to these project specific items, the disruption in manufacturing has resulted in higher than previously anticipated costs, particularly in relation to excessive transport, to ensure customer schedules are met. The direct additional logistics costs were £1.2 million during the year.

The total financial impact in 2017/18 of the reorganisation of the machining business was a non-recurring cost of £3.3 million. Therefore, excluding these costs, the underlying machining business generated a trading loss of £0.65 million during the year.

We have invested £7.1 million during the year which was primarily focused on work for the group’s traditional customer base. Whilst there will continue to be a replacement need, it is expected that the investment will be significantly reduced in 2018/19. Management are focused on ensuring an enhanced return on the capital already invested in the machining business.

Business review and performance

Revenue

Group revenues increased by 12.2% to £133.3 million compared to £118.8 million reported in 2017, of which 73% was exported (2017 – 72%).

The revenue from the foundry operations to external customers increased 13.6% to £127.0 million (2017 – £111.8 million) with the dispatch weight of castings to third-party customers increasing 4.2% to 49,200 tonnes (2017 – 47,200 tonnes).

Revenue from the machining operation to external customers decreased by 10.2% during the year to £6.3 million (2017 – £7.0 million).

Operating profit and segmental result

The group operating profit for the year was £11.9 million compared to £15.7 million reported in 2017, which represents a return on sales of 9.0% (2017 – 13.2%). However, this result includes £3.3 million of non-recurring costs associated with the reorganisation of the machining segment; an adjusted return on sales figure would be 11.4%.

The foundry operations returned a segmental profit of £16.1 million compared to £14.5 million in 2017. This represents a slight decrease in segmental profit as a percentage of total segment sales to 11.0% from 11.3% in 2017.

The segmental result of the machining operation was a loss of £3.95 million in the year compared to a profit of £1.52 million in 2017.

Icelandic bank receipts

During the year we have received £0.11 million (2017 – £0.13 million) in respect of the failed Icelandic banks. Of the original balance of £5.7 million, the total received to date is £3.84 million which is £1.97 million in excess of the original estimate of recoverable amounts. Given the uncertainty over the quantum and timing of any possible further receipts, no allowance has been made for future recoverable amounts.

Finance income

The reduction in the level of finance income from £0.24 million in 2017 to £0.13 million in the current year reflects the lower levels of cash held and a lower average interest rates on deposits.

Profit before income tax

Profit before taxation has decreased to £12.1 million from £15.9 million.

Taxation

The current year tax charge of £2.28 million (2017 – £2.91 million) is made up of a current tax charge of £2.72 million (2017 – £3.25 million) and a deferred tax credit of £0.44 million (2017 – £0.33 million).

The effective rate of tax of 18.9% (2017 – 18.3%) is marginally lower than the main rate of corporation tax, reflecting the falling future UK corporation tax rate and therefore the remeasurement of deferred tax liabilities at the lower substantively enacted future rate of 17%.

Earnings per share

Basic earnings per share decreased 24.6% to 22.46 pence (2017 – 29.80 pence), reflecting the 24.1% decrease in profits and a slightly higher effective tax rate compared to the previous year. There has been no change in the weighted average number of shares in issue of 43,632,068.

Dividends

The directors are recommending an increase in the final dividend to 11.12 pence per share (2017 – 10.59 pence per share) to be paid on 17 August 2018. This would give a total normal distribution for the year of 14.50 pence per share (2017 – 13.97 pence per share).

Cash flow

The group generated cash from operating activities of £17.4 million compared to £21.5 million in 2017. In addition to the lower operating profit, the increase in payables of £2.4 million was offset by increases in inventory and receivables of £2.2 million and £3.6 million respectively.

Corporation tax payments during the year totalled £3.2 million compared to £3.4 million in 2017, reflecting the timing of quarterly payments.

Capital expenditure during the year amounted to £11.2 million (2017 – £14.2 million). This included investment in production processes and automation in the foundry businesses and production facilities and machining centres within the machining operation. The charge for depreciation was £8.5 million compared to £7.3 million in 2017.

The current interest-bearing deposit of £5 million taken out in the previous year matured in November 2017. With the exception of £0.1 million which was transferred to short-term deposits, the remainder was rolled over to mature during the next financial year.

Repayments of £3.1 million (2017 – £3.8 million) were received from the final salary pension schemes during the year and advances were made to the schemes of £3.3 million (2017 – £2.0 million). The higher level of advances reflects the payments in respect of new pensioners and deferred members transferring out of the schemes. Dividends paid to shareholders were £6.1 million in the year compared to £19.1 million in 2017, the reduction being due to the supplementary dividend of £13.1 million paid during the previous year. The resulting net cash and cash equivalents represented a decrease of £3.1 million (2017 – £8.2 million).

At 31 March 2018, the total cash and deposits position at the balance sheet date is £24.1 million (2017 – £27.2 million).

Pensions

The pension valuation showed an increase in the surplus, on an IAS 19 (Revised) basis, to £22.6 million compared to £16.8 million in the previous year. The surplus continues not to be shown on the balance sheet due to the IAS 19 (Revised) restriction of recognition of assets where the company does not have an unconditional right to receive returns of contributions or refunds.

Balance sheet

Net assets at 31 March 2018 were £128.1 million (2017 – £124.1 million). Other than the total comprehensive income for the year of £10.1 million, the only movement relates to the dividend charge of £6.1 million.

Non-current assets have increased to £76.9 million (2017 – £75.4 million) primarily as a result of the investment in property, plant and equipment during the year offset by the change in the debtor due from the pension scheme of £1.1 million (2017 – £2.3 million).

Current assets have increased to £78.4 million (2017 – £74.5 million) mainly as a result of increases in material prices. Total liabilities have increased to £27.2 million (2017 – £25.8 million), largely as a result of an increase in trade payables.

Consolidated Statement of Comprehensive Income
for the year ended 31 March 2018

	2018 £000	2017 £000
Revenue	**133,276**	118,822
Cost of sales	**(103,674)**	(88,634)
Gross profit	**29,602**	30,188
Distribution costs	**(3,818)**	(1,939)
Administrative expenses		
Excluding exceptional items	**(13,949)**	(12,701)
Exceptional items	**109**	130
Total administrative expenses	**(13,840)**	(12,571)
Profit from operations	**11,944**	15,678
Finance income	**133**	237
Profit before income tax	**12,077**	15,915
Income tax expense	**(2,279)**	(2,911)
Profit for the year attributable to equity holders of the parent company	**9,798**	13,004
Other comprehensive income/(losses) for the year:		
Items that will not be reclassified to profit and loss:		
Movement in unrecognised surplus on defined benefit pension schemes net of actuarial gains and losses	**352**	235
	352	235
Items that may be reclassified subsequently to profit and loss:		
Change in fair value of available-for-sale financial assets	**(72)**	54
Tax effect of items that may be reclassified	**15**	(10)
	(57)	44
Other comprehensive income for the year (net of tax)	**295**	279
Total comprehensive income for the year attributable to the equity holders of the parent company	**10,093**	13,283
Earnings per share attributable to the equity holders of the parent company		
Basic and diluted	**22.46p**	29.80p

Consolidated Balance Sheet
as at 31 March 2018

	2018 £000	2017 £000
ASSETS		
Non-current assets		
Property, plant and equipment	**75,448**	72,762
Financial assets	**336**	408
Other receivables	**1,135**	2,269
	76,919	75,439
Current assets		
Inventories	**16,284**	14,063
Trade and other receivables	**38,090**	33,189
Other current interest-bearing deposits	**4,900**	5,000
Cash and cash equivalents	**19,174**	22,228
	78,448	74,480
Total assets	**155,367**	149,919
LIABILITIES		
Current liabilities		
Trade and other payables	**22,242**	19,866
Current tax liabilities	**1,380**	1,855
	23,622	21,721
Non-current liabilities		
Deferred tax liabilities	**3,603**	4,054
Total liabilities	**27,225**	25,775
Net assets	**128,142**	124,144
Equity attributable to equity holders of the parent company		
Share capital	**4,363**	4,363
Share premium account	**874**	874
Other reserve	**13**	13
Retained earnings	**122,892**	118,894
Total equity	**128,142**	124,144

Consolidated Cash Flow Statement
for the year ended 31 March 2018

	2018 £000	2017 £000
Cash flows from operating activities		
Profit before income tax	**12,077**	15,915
Adjustments for:		
Depreciation	**8,525**	7,276
Loss/(profit) on disposal of property, plant and equipment	**9**	(24)
Finance income	**(133)**	(237)
Pension administrative costs	**352**	235
Increase in inventories	**(2,221)**	(2,071)
Increase in receivables	**(3,568)**	(2,661)
Increase in payables	**2,376**	3,098
Cash generated from operating activities	**17,417**	21,531
Tax paid	**(3,190)**	(3,419)
Interest received	**111**	213
Net cash generated from operating activities	**14,338**	18,325
Cash flows from investing activities		
Dividends received from listed investments	**22**	24
Purchase of property, plant and equipment	**(11,223)**	(14,214)
Proceeds from disposal of property, plant and equipment	**3**	23
Transfer from other current interest-bearing deposits	**100**	5,000
Repayments from pension schemes	**3,122**	3,761
Advances to the pension schemes	**(3,321)**	(2,004)
Net cash used in investing activities	**(11,297)**	(7,410)
Cash flow from financing activities		
Dividends paid to shareholders	**(6,095)**	(19,072)
Net cash used in financing activities	**(6,095)**	(19,072)
Net decrease in cash and cash equivalents	**(3,054)**	(8,157)
Cash and cash equivalents at beginning of year	**22,228**	30,385
Cash and cash equivalents at end of year	**19,174**	22,228
Cash and cash equivalents:		
Short-term deposits	**16,846**	21,362
Cash available on demand	**2,328**	866
	19,174	22,228

Consolidated Statement of Changes in Equity

for the year ended 31 March 2018

	Equity attributable to equity holders of the parent				
	Share capital[a)]	**Share premium[b)]**	**Other reserve[c)]**	**Retained earnings[d)]**	**Total equity**
	£000	**£000**	**£000**	**£000**	**£000**
At 1 April 2017	**4,363**	**874**	**13**	**118,894**	**124,144**
Profit for the year	—	—	—	**9,798**	**9,798**
Other comprehensive income/(losses):					
Movement in unrecognised surplus on defined benefit pension schemes net of actuarial gains and losses	—	—	—	**352**	**352**
Change in fair value of available for sale assets	—	—	—	**(72)**	**(72)**
Tax effect of items taken directly to reserves	—	—	—	**15**	**15**
Total comprehensive income for the year ended 31 March 2018	—	—	—	**10,093**	**10,093**
Dividends (see note 5)	—	—	—	**(6,095)**	**(6,095)**
At 31 March 2018	**4,363**	**874**	**13**	**122,892**	**128,142**

	Equity attributable to equity holders of the parent				
	Share capital[a)]	Share premium[b)]	Other reserve[c)]	Retained earnings[d)]	Total equity
	£000	£000	£000	£000	£000
At 1 April 2016	4,363	874	13	124,683	129,933
Profit for the year	—	—	—	13,004	13,004
Other comprehensive income/(losses):					
Movement in unrecognised surplus on defined benefit pension schemes net of actuarial gains and losses	—	—	—	235	235
Change in fair value of available for sale assets	—	—	—	54	54
Tax effect of items taken directly to reserves	—	—	—	(10)	(10)
Total comprehensive income for the year ended 31 March 2017	—	—	—	13,283	13,283
Dividends (see note 5)	—	—	—	(19,072)	(19,072)
At 31 March 2017	4,363	874	13	118,894	124,144

a) Share capital — The nominal value of allotted and fully paid up ordinary share capital in issue.
b) Share premium — Amount subscribed for share capital in excess of nominal value.
c) Other reserve — Amounts transferred from share capital on redemption of issued shares.
d) Retained earnings — Cumulative net gains and losses recognised in the statement of comprehensive income.

Notes to the Financial Statements

1 Basis of preparation

The group financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards ('IAS') and Interpretations (collectively 'IFRS'), as endorsed for use in the EU.

The IFRSs applied in the group financial statements are subject to ongoing amendment by the IASB and subsequent endorsement by the European Commission and therefore subject to possible change in the future. Further standards and interpretations may be issued that will be applicable for financial years beginning on or after 1 April 2018 or later accounting periods but may be adopted early.

The preparation of financial statements in accordance with IFRS requires the use of certain accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies.

The primary statements within the financial information contained in this document have been presented in accordance with IAS 1 Presentation of Financial Statements.

The financial statements are prepared under the historical cost convention, except where adjusted for revaluations of certain assets, and in accordance with applicable Accounting Standards and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The accounting policies used are consistent with those disclosed in the 31 March 2017 financial statements. The presentation currency used is sterling and the amounts have been presented in round thousands ("£000").

2 Operating segments

For internal decision-making purposes, the group is organised into three operating companies which are considered to be the operating segments of the group: Castings P.L.C. and William Lee Limited are aggregated into Foundry operations and CNC Speedwell Limited is the Machining operation.

Inter-segment transactions are entered into under the normal commercial terms and conditions that would be available to third parties.

The following shows the revenues, results and total assets by reportable segment in the year to 31 March 2018:

	Foundry operations £000	**Machining operations £000**	**Elimination £000**	**Total £000**
Revenue from external customers	**127,007**	**6,269**	—	**133,276**
Inter-segmental revenue	**19,024**	**18,571**	—	**37,595**
Segmental result	**16,051**	**(3,950)**	**86**	**12,187**
Unallocated costs:				
Exceptional credit for recovery of Icelandic bank deposits previously written off				**109**
Defined benefit pension cost				**(352)**
Finance income				**133**
Profit before income tax				**12,077**
Total assets	**135,669**	**36,258**	**(16,560)**	**155,367**
Non-current asset additions	**4,134**	**7,089**	—	**11,223**
Depreciation	**3,921**	**4,604**	—	**8,525**
Total liabilities	**(27,008)**	**(11,581)**	**11,364**	**(27,225)**

All non-current assets are based in the United Kingdom.

The following shows the revenues, results and total assets by reportable segment in the year to 31 March 2017:

	Foundry operations £000	Machining operations £000	Elimination £000	Total £000
Revenue from external customers	111,838	6,984	—	118,822
Inter-segmental revenue	16,826	16,347	—	33,173
Segmental result	14,506	1,519	(242)	15,783
Unallocated costs:				
Exceptional credit for recovery of Icelandic bank deposits previously written off				130
Defined benefit pension cost				(235)
Finance income				237
Profit before income tax				15,915
Total assets	126,095	33,464	(9,640)	149,919

Non-current asset additions	7,945	5,145	—	13,090
Depreciation	3,543	3,733	—	7,276
Total liabilities	(24,620)	(5,529)	4,374	(25,775)

All non-current assets are based in the United Kingdom.

	2018 £000	2017 £000
The geographical analysis of revenues by destination for the year is as follows:		
United Kingdom	**36,542**	32,889
Sweden	**36,787**	32,985
Netherlands	**22,070**	17,801
Rest of Europe	**33,452**	31,813
North and South America	**3,735**	2,879
Other	**690**	455
	133,276	118,822

All revenue arises in the United Kingdom from the group's continuing activities.

3 Exceptional items

	2018 £000	2017 £000
Recovery of past provision for losses on deposits with Icelandic banks	**(109)**	(130)
	(109)	(130)

The company reported in the year ended 31 March 2009 that £1.86 million was included in other receivables as the net recoverable after provision from various Icelandic banks. So far £3.8 million has been received of the original balance of £5.7 million with the excess over the £1.97 million being shown as an exceptional credit.

4 Income tax expense

	2018 £000	2017 £000
Corporation tax based on a rate of 19% (2017 – 20%)		
UK corporation tax		
Current tax on profits for the year	**2,759**	3,389
Adjustments to tax charge in respect of prior periods	**(44)**	(144)
	2,715	3,245
Deferred tax		
Current year origination and reversal of temporary differences	**(95)**	(20)
Adjustment to deferred tax charge in respect of prior periods	**(341)**	(314)
	(436)	(334)
Taxation on profit	**2,279**	2,911
Profit before income tax	**12,077**	15,915
Tax on profit at the standard rate of corporation tax in the UK of 19% (2017 – 20%)	**2,295**	3,183
Effect of:		
Expenses not deductible for tax purposes	**302**	139
Adjustment to tax charge in respect of prior periods	**(44)**	(144)
Adjustment to deferred tax charge in respect of prior periods	**(341)**	(314)
Pension adjustments	**67**	47
Total tax charge for the year	**2,279**	2,911
Effective rate of tax (%)	**18.9**	18.3

The main rate of corporation tax was reduced from 20% to 19% with effect from 1 April 2017. The Finance Act 2016, substantively enacted on 7 September 2016, reduced the main tax rate to 17% from 1 April 2020.

5 Dividends

	2018 £000	2017 £000
Final paid of 10.59p per share for the year ended 31 March 2017 (2016 – 10.33p)	**4,620**	4,507
Interim paid of 3.38p per share (2017 – 3.38p)	**1,475**	1,475
Supplementary dividend of 30.00p per share for the year ended 31 March 2016	—	13,090
	6,095	19,072

The directors are proposing a final dividend of 11.12 pence (2017 – 10.59 pence) per share totalling £4,851,886 (2017 – £4,620,636). This dividend has not been accrued at the balance sheet date.

6 Earnings per share

Earnings per share is calculated on the profit on ordinary activities after taxation of £9,798,000 (2017 – £13,004,000) and on the weighted average number of shares in issue at the end of the year of 43,632,068 (2017 – 43,632,068). There are no potentially dilutive shares, hence the diluted earnings per share is the same as above.

7 Property, plant and equipment

	Freehold and leasehold land and buildings £000	Plant and equipment £000	Total £000
Cost			
At 1 April 2017	40,235	125,863	166,098
Additions during the year	846	10,377	11,223
Disposals	—	(691)	(691)
At 31 March 2018	**41,081**	**135,549**	**176,630**
Accumulated depreciation			
At 1 April 2017	8,014	85,322	93,336
Charge for year	1,164	7,361	8,525
Disposals	—	(679)	(679)
At 31 March 2018	**9,178**	**92,004**	**101,182**
Net book values			
At 31 March 2018	**31,903**	**43,545**	**75,448**
At 31 March 2017	32,221	40,541	72,762

Cost			
At 1 April 2016	34,579	120,978	155,557
Adjustment to opening balance	(5)	84	79
Additions during year	5,661	7,429	13,090
Disposals	—	(2,628)	(2,628)
At 31 March 2017	40,235	125,863	166,098
Accumulated depreciation			
At 1 April 2016	6,986	81,623	88,609
Adjustment to opening balance	—	79	79
Charge for year	1,028	6,248	7,276
Disposals	—	(2,628)	(2,628)
At 31 March 2017	8,014	85,322	93,336
Net book values			
At 31 March 2017	32,221	40,541	72,762
At 31 March 2016	27,593	39,355	66,948

The net book value of land and buildings includes £2,527,000 (2017 – £2,527,000) for land which is not depreciated and assets in the course of construction with a net book value of £nil (2017 – £1,004,000 and 2016 – £1,971,000) which are not depreciated.

The cost of land and buildings includes £359,000 for property held on long leases (2017 – £359,000).

Included within plant and equipment are assets in the course of construction with a net book value of £158,000 (2017 – £995,000) and assets not fully in production with a net book value of £1,618,000 (2017 – £4,492,000 and 2016 – £3,004,000) which are not being depreciated.

8 Commitments and contingencies

	2018 £000	2017 £000
Capital commitments contracted for by the group but not provided for in the financial statements	**752**	4,406

The group does not insure against the potential cost of product warranty or recall. Accordingly, there is always the possibility of claims against the group for quality related issues on parts supplied to customers. As at 31 March 2018, the directors do not consider any significant liability will arise in respect of any such claims (2017 – £nil).

9 Pensions

The company operates two defined benefit pension schemes which were closed to future accruals at 6 April 2009. The funded status of these schemes at 31 March 2018 was a surplus of £22,631,000 (2017 - £16,844,000). The pension surplus has not been recognised as the group does not have an unconditional right to receive returns of contributions or refunds under the scheme rules.

10 Preliminary statement

The financial information set out above does not constitute the company's statutory financial statements for the years ended 31 March 2018 or 2017, but is derived from those financial statements. Statutory financial statements for 2017 have been delivered to the Registrar of Companies and those for 2018 will be delivered following the company's Annual General Meeting. The auditors have reported on those financial statements; their reports were unqualified, did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their reports and did not contain statements under Section 498 of the Companies Act 2006.

The annual report and financial statements will be posted to shareholders on 22 June 2018 and will be available on the company's website, www.castings.plc.uk, from 29 June 2018.

Appendix A - Principal Risks and Uncertainties

Risk
In common with all trading businesses, the group is exposed to a variety of risks in the conduct of its normal business operations.

The group maintains a range of insurance policies against major identified insurable risks, including (but not limited to) those related to business interruption, damage to property and equipment, damage to stocks, public and product liability and employers' liability.

The directors have carried out a robust assessment of the principal risks facing the entity. Whilst it is difficult either to completely record or to quantify every material risk that the group faces, below is a summary of those risks that the directors believe are most significant to the group's business and could have a material impact on future performance, causing it to differ materially from expected or historic achieved results. Information is also provided as to how the risks are, where possible, being managed or mitigated.

Operational and commercial
The group's revenues are principally derived from commercial vehicle and automotive markets. Both markets, and therefore group revenues, can be subject to variations in patterns of demand. Commercial vehicle sales are linked to technological factors (e.g. emission legislations) and economic growth. Passenger vehicle sales are influenced, *inter alia*, by consumer preferences, incentives and the availability of consumer credit.

Market competition
Automotive and commercial vehicle markets are, by their nature, highly competitive, which has historically led to deflationary pressure on selling prices. This pressure is most pronounced in cycles of lower demand. A number of the group's customers are also adopting global sourcing models with the aim to reduce bought-out costs. Whilst there can be no guarantee that business will not be lost on price, we are confident that we can remain competitive.

Customer concentration, programme dependencies and relationships
The loss of, or deterioration in, any major customer relationship could have a material impact on the group's results. We build strong relationships with our customers to develop products to meet their specific needs.

Product quality and liability
The group's businesses expose it to certain product liability risks which, in the event of failure, could give rise to material financial liabilities. Whilst it is a policy of the group to limit its financial liability by contract in all long-term agreements ("LTAs"), it is not always possible to secure such limitations in the absence of LTAs. The group's customers do require the maintenance of demanding quality systems to safeguard against quality-related risks and the group maintains appropriate external quality accreditations. The group maintains insurance for public liability-related claims but does not insure against the risk of product warranty or recall.

Foreign exchange
The group is exposed to foreign exchange risk on both sales and purchases that are denominated in currencies other than sterling, being primarily euro and US dollar. Foreign exchange rate risk is sometimes partially mitigated by using forward foreign exchange contracts. Such contracts are short-term in nature, matched to contractual cash flows and non-speculative.

Equipment
The group operates a number of specialist pieces of equipment, including foundry furnaces, moulding lines and CNC milling machines which, due to manufacturing lead times, would be difficult to replace sufficiently quickly to prevent major interruption and possible loss of business in the event of unforeseen failure. Whilst this risk cannot be entirely mitigated without uneconomic duplication of all key equipment, all key equipment is maintained to the highest possible standards and inventories of strategic equipment spares maintained. The facilities at Brownhills and Dronfield have similar equipment and work can be transferred from one location to another very quickly. The machining business also operates from two separate locations, enabling the transfer of some production if required.

Suppliers and trade credit
Although the group takes care to ensure alternative sources of supply remain available for materials or services on which the group's businesses are critically dependent, this is not always possible to guarantee without risk of short-term business disruption, additional costs and potential damage to relationships with key customers. The ability of our suppliers to maintain credit insurance on the group and its principal operating businesses is an important issue. We have excellent relationships with our suppliers and we continue to work closely with them on a normal commercial basis. A reduction in the level of cover available to suppliers may impact on our trading relationship with them and may have a significant effect on cash flows.

Commodity and energy pricing
The principal metal raw materials used by the group's businesses are steel scrap and various alloys. The most important alloy raw material inputs are premium graphite, magnesium ferro-silicon, copper, nickel and molybdenum. Wherever possible, prices and quantities (except steel) are secured through long-term agreements with suppliers. In general, the risk of price inflation of these materials resides with the group's customers through price adjustment clauses.

Energy contracts are locked in for at least 12 months, although renegotiation risks remain at contract maturity dates but again this is mitigated through the application of price adjustment clauses. At 31 March 2018, the group has electricity contracts in place until 30

September 2020. Consumption levels at the balance sheet date are well within the agreed tolerance levels and this situation is not expected to change.

Information technology and systems reliability
The group is dependent on its information technology ("IT") systems to operate its business efficiently, without failure or interruption. Whilst data within key systems is regularly backed up and systems subject to virus protection, any failure of backup systems or other major IT interruption could have a disruptive effect on the group's business.

Short-term deposits
A review of credit ratings is undertaken prior to making new deposits and the maximum exposure to any one counterparty is restricted. However, institutions can be downgraded before maturity, thereby possibly placing these deposits at risk.

Environmental
The group's businesses are subject to compliance with many different laws and requirements in the UK, Europe, North America and elsewhere. Great care is made to act responsibly towards the environment to achieve compliance with all relevant laws and to establish a standard above the minimum level required. Whilst the group's manufacturing processes are not generally considered to provide a high risk of harm to the environment, a major control failure leading to environmental harm could give rise to a material financial liability as well as significant harm to the reputation of our business.

Pension scheme funding
The fair value of the assets and liabilities of the group's defined benefit pension schemes is substantial. As at 31 March 2018 the schemes were in surplus on an IAS 19 (Revised) basis. The potential risks and uncertainties resulting from factors such as investment return, interest rates and mortality rates are mitigated by careful management and continual monitoring of the schemes and by appropriate and timely action to ensure as far as possible that the defined benefit pension liabilities do not increase disproportionately. The company works closely with the scheme trustees and specialist advisers in managing the inherent risks of such schemes.

The schemes were closed to future accruals from 6 April 2009, which only leaves past service liabilities to be funded.

Appendix B

The statements below have been prepared in connection with the group's full annual report for the year ended 31 March 2018. Certain parts thereof are not included within this announcement.

Each of the persons who is a director at the date of approval of this report confirms that to the best of his knowledge:

(a) each of the group and parent financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU and UK Accounting Standards respectively, gives a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer and the undertakings included in the consolidation taken as a whole; and
(b) the Chairman's Statement, Strategic Report and Directors' Report includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the board

B. J. Cooke

Chairman

13 June 2018