CASTINGS P.L.C.
INTERIM MANAGEMENT REPORT
Six months ended 30 September 2018

Sales for the six months ended 30 September 2018 were £68.3 million (2017 – £61.7 million) with profit before tax of £5.77 million (2017 – £5.91 million).

Foundry operations
As previously reported, customer demand during the period remained steady with output of 23,900 tonnes (2017 – 23,500 tonnes) and external sales revenue up 11.2% to £65.0 million. The revenue figure is enhanced by the continued shift to more machined parts resulting in higher average selling prices and, to a lesser extent, the impact of rising steel scrap prices during the period which have been passed on to customers.

The profit from the foundry segment of £6.5 million represents a decrease of 5.7% from the previous period. The result has been negatively impacted by the time lag in passing on raw material and other price increases and a degree of inefficiencies relating to the introduction of new production processes.

Investment of £2.3 million has been made during the period to support automation and other productivity initiatives within the foundry businesses.

Machining operation
CNC Speedwell generated external revenue of £3.3 million during the period, an increase of 0.7% compared to the equivalent period last year ("previous period"), with a reported loss of £0.8 million compared to £1.0 million in the previous period.

Following the finalisation of the new management team structure in March 2018, the initial focus was to increase output to ensure customer schedules were satisfied without the need for excessive transport costs. This was achieved during the period along with returning finished foundry stocks to satisfactory operational levels, resulting in an increase to inventories of £2.2 million.

A number of new parts have commenced production during the period, many of which require considerable engineering focus to maximise productivity against a back-drop of competitive prices. Whilst this is under way, it will take some time before all the necessary processes have been reviewed and production efficiencies realised. Where gains have been made this has increased available capacity and allowed management to bring back work that had previously been subcontracted, without the need for capital investment.

Whilst the operating loss is disappointing, it reflects the current status of the machining businesses in what is a period of considerable change. The capital investment during the period has reduced from £2.7 million in the previous period to £1.3 million. The investment made has been to support increased demand from core business customers and for specific productivity projects; this remains the strategy for future capital investment appraisal.

Management is now applying a greater focus on maintaining existing equipment to ensure the asset returns are maximised thus removing the need for further investment in capacity. Consequently the management of CNC has reviewed the useful economic lives of the recently acquired items of plant and machinery and has determined that a life of 15 years is more appropriate than the 10 years previously used. This life is within the range recorded in the group accounting policies and the change has resulted in a reduction of the depreciation charge for the period of £0.5 million.

The closure of the Fradley site and consolidation of the machining business at the Brownhills facility is now complete.

Outlook
Demand from our commercial vehicle customer base remains steady and every effort is being made to ensure further productivity gains are achieved within the foundry businesses to enhance the return.

The ongoing changes at the machining operation are undoubtedly going to take time before they generate any significant return. The intention is to begin a programme of automation investment during 2019/20 which will enable the business to achieve additional productivity gains over a number of years. The business continues to provide vital support to the foundries in satisfying the product requirements of the group's core customer base.

Dividend
An interim dividend of 3.38 pence per share has been declared and will be paid on 2 January 2019 to shareholders who are on the register at 23 November 2018.

Principal risks and uncertainties
There are a number of potential risks and uncertainties which could have a material impact on the group's performance over the remaining six months of the financial year and could cause actual results to differ materially from expected and historical results.

The directors consider that the principal risks and uncertainties remain substantially the same as those stated on pages 7 and 8 of the Annual Report for the year ended 31 March 2018.

The ongoing Brexit negotiations continue to cause uncertainty regarding the near-term outlook and prospects for the UK economy. It is still too early to quantify or determine with certainty the impact on the group. The Board will continue to monitor developments, consider the impact on the group's businesses and take appropriate action to help mitigate any risks associated with the UK leaving the EU.

Director change
Andrew Eastgate was appointed non-executive director on 1 September 2018.

Cautionary statement
This Interim Management Report ('IMR') has been prepared solely to provide additional information to shareholders to enable them to assess the group's strategies and the potential for those strategies to succeed. The IMR should not be relied on by any other party or for any other purpose. This IMR contains certain forward-looking statements. These are made by the directors in good faith based on the information available to them up to the time of their approval of this report but such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

The group undertakes no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

The IMR has been prepared for the group as a whole and therefore gives greater emphasis to those matters which are significant to Castings P.L.C. and its subsidiary undertakings when viewed as a whole.

By order of the board

BRIAN J. COOKE
Chairman
13 November 2018

Castings P.L.C.
Lichfield Road
Brownhills
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WS8 6JZ

Consolidated Statement of Comprehensive Income
For six months ended 30 September 2018

	Unaudited Half year to 30 September 2018 £'000	Unaudited Half year to 30 September 2017 £'000	Audited Year to 31 March 2018 £'000
Revenue	**68,284**	61,728	133,276
Cost of sales	**(54,710)**	(47,720)	(103,674)
Gross profit	**13,574**	14,008	29,602
Distribution costs	**(1,429)**	(1,289)	(3,818)
Administrative expenses			
Excluding exceptional	**(6,444)**	(6,851)	(13,949)
Exceptional	**—**	—	109
Total administrative expenses	**(6,444)**	(6,851)	(13,840)
Profit from operations	**5,701**	5,868	11,944
Finance income	**70**	43	133
Profit before income tax	**5,771**	5,911	12,077
Income tax expense	**(1,094)**	(1,121)	(2,279)
Profit for the period attributable to the equity holders of the parent company	**4,677**	4,790	9,798
Other comprehensive income/(expense) for the period:			
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
	—	—	352
Items that may be reclassified subsequently to profit and loss:			
Change in fair value of available for sale financial assets	**32**	(42)	(72)
Tax effect of items that may be reclassified	**(5)**	8	15
	27	(34)	(57)
Total other comprehensive income/(losses) for the period (net of tax)	**27**	(34)	295
Total comprehensive income for the period attributable to the equity holders of the parent company	**4,704**	4,756	10,093
Earnings per share attributable to the equity holders of the parent company			
Basic and diluted	**10.72p**	10.98p	22.46p

Consolidated Balance Sheet

30 September 2018

	Unaudited 30 September 2018 £'000	Unaudited 30 September 2017 £'000	Audited 31 March 2018 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	**75,253**	75,070	75,448
Financial assets	**369**	366	336
Other receivables	**1,135**	2,269	1,135
	76,757	77,705	76,919
Current assets			
Inventories	**18,503**	14,574	16,284
Trade and other receivables	**40,670**	35,685	38,090
Other current interest-bearing deposits	**4,900**	5,000	4,900
Cash and cash equivalents	**14,692**	19,514	19,174
	78,765	74,773	78,448
Total assets	**155,522**	152,478	155,367
LIABILITIES			
Current liabilities			
Trade and other payables	**22,787**	23,001	22,242
Current tax liabilities	**1,075**	1,090	1,380
	23,862	24,091	23,622
Non-current liabilities			
Deferred tax liabilities	**3,666**	4,105	3,603
Total liabilities	**27,528**	28,196	27,225
Net assets	**127,994**	124,282	128,142
Equity attributable to equity holders of the parent company			
Share capital	**4,363**	4,363	4,363
Share premium account	**874**	874	874
Other reserve	**13**	13	13
Retained earnings	**122,744**	119,032	122,892
Total equity	**127,994**	124,282	128,142

Consolidated Cash Flow Statement

For six months ended 30 September 2018

	Unaudited Half year to 30 September 2018 £'000	Unaudited Half year to 30 September 2017 £'000	Audited Year to 31 March 2018 £'000
Cash flows from operating activities			
Profit before income tax	**5,771**	5,911	12,077
Adjustments for:			
Depreciation	**3,870**	3,677	8,525
Profit on disposal of property, plant and equipment	**—**	—	9
Finance income	**(70)**	(43)	(133)
Pension administrative costs	**—**	—	352
Increase in inventories	**(2,219)**	(511)	(2,221)
Increase in receivables	**(1,841)**	(535)	(3,568)
Increase in payables	**545**	3,134	2,376
Cash generated from operating activities	**6,056**	11,633	17,417
Tax paid	**(1,341)**	(1,826)	(3,190)
Interest received	**57**	30	111
Net cash generated from operating activities	**4,772**	9,837	14,338
Cash flows from investing activities			
Dividends received from listed investments	**13**	13	22
Purchase of property, plant and equipment	**(3,187)**	(6,719)	(11,223)
Proceeds from disposal of property, plant and equipment	**—**	—	3
Transfer from other current interest-bearing deposits	**—**	—	100
Repayments from pension schemes	**—**	—	3,122
Advances to pension schemes	**(1,228)**	(1,227)	(3,321)
Net cash used in investing activities	**(4,402)**	(7,933)	(11,297)
Cash flow from financing activities			
Dividends paid to shareholders	**(4,852)**	(4,618)	(6,095)
Net cash used in financing activities	**(4,852)**	(4,618)	(6,095)
Net decrease in cash and cash equivalents	**(4,482)**	(2,714)	(3,054)
Cash and cash equivalents at beginning of period	**19,174**	22,228	22,228
Cash and cash equivalents at end of period	**14,692**	19,514	19,174
Cash and cash equivalents:			
Short-term deposits	**11,931**	16,608	16,846
Cash available on demand	**2,761**	2,906	2,328
	14,692	19,514	19,174

Consolidated Statement of Changes in Equity

	Equity attributable to equity holders of the parent				
Unaudited	**Share capital £'000**	**Share premium £'000**	**Other reserve £'000**	**Retained earnings £'000**	**Total equity £'000**
At 1 April 2018	**4,363**	**874**	**13**	**122,892**	**128,142**
Profit for the period	**—**	**—**	**—**	**4,677**	**4,677**
Other comprehensive income/(losses):					
Change in fair value of available for sale assets	**—**	**—**	**—**	**32**	**32**
Tax effect of items taken directly to reserves	**—**	**—**	**—**	**(5)**	**(5)**
Total comprehensive income for the period ended 30 September 2018	**—**	**—**	**—**	**4,704**	**4,704**
Dividends	**—**	**—**	**—**	**(4,852)**	**(4,852)**
At 30 September 2018	**4,363**	**874**	**13**	**122,744**	**127,994**

Unaudited	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
At 1 April 2017	4,363	874	13	118,894	124,144
Profit for the period	—	—	—	4,790	4,790
Other comprehensive income/(losses):					
Change in fair value of available for sale assets	—	—	—	(42)	(42)
Tax effect of items taken directly to reserves	—	—	—	8	8
Total comprehensive income for the period ended 30 September 2017	—	—	—	4,756	4,756
Dividends	—	—	—	(4,618)	(4,618)
At 30 September 2017	4,363	874	13	119,032	124,282

Audited	**£'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 loss	—	—	—	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	—	—	—	(6,095)	6,095)
At 31 March 2018	4,363	874	13	122,892	128,142

Notes

1. General information

Castings P.L.C. (the 'company') is a company domiciled in England. The condensed consolidated interim financial statements of the company for the six months ended 30 September 2018 comprise the company and its subsidiaries (together referred to as the 'group').

The principal activities of the group are the manufacture of iron castings and machining operations.

The financial information for the year ended 31 March 2018 does not constitute the full statutory accounts for that period. The Annual Report and Financial Statements for the year ended 31 March 2018 have been filed with the Registrar of Companies. The Independent Auditors' Report on the Annual Report and Financial Statements for 2018 was unqualified, did not draw attention to any matters by way of emphasis, and did not contain a statement under 498 (2) or (3) of the Companies Act 2006.

This report has not been audited and has not been reviewed by independent auditors pursuant to the Auditing Practices Board guidance on Review of Interim Financial Information.

2. Accounting policies

The annual financial statements of Castings P.L.C. are prepared using the recognition and measurement principles of IFRSs as endorsed by the European Union. The condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the European Union.

Basis of preparation

After making enquiries, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the half-yearly condensed consolidated interim financial statements.

The same accounting policies, presentation and methods of computation are followed in the condensed consolidated interim financial statements as applied in the group's latest annual audited financial statements. Following a review of the useful economic lives of the recently acquired items of plant and machinery within the machining business, the directors have determined that a life of 15 years is more appropriate than the 10 years previously used. This revision is within the range set out in the group accounting policies and the change has resulted in a reduction of the depreciation charge for the period of £0.5 million.

3. Seasonality of operations

The directors do not consider there to be any significant seasonality or cyclicality to the results of the group.

4. Segment information

For internal decision making purposes, the group is organised into three operating companies which are considered to represent two 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 for the half year to 30 September 2018.

	Foundry operations £'000	Machining £'000	Elimination £'000	Total £'000
Revenue from external customers	64,988	3,296	—	68,284
Inter-segmental revenue	9,433	9,646	—	19,079
Segmental result	6,476	(775)	—	5,701
Unallocated income:				
Finance income				70
Profit before income tax				5,771
Total assets	138,487	35,261	(18,226)	155,522
Non-current asset additions	2,336	1,339	—	3,675
Depreciation	1,972	1,898	—	3,870
Total liabilities	(28,132)	(11,359)	11,963	(27,528)

The following shows the revenues, results and total assets by reportable segment for the half year to 30 September 2017.

	Foundry operations £'000	Machining £'000	Elimination £'000	Total £'000
Revenue from external customers	58,454	3,274	—	61,728
Inter-segmental revenue	8,893	8,600	—	17,493
Segmental result	6,867	(999)	—	5,868
Unallocated income:				
Finance income				43
Profit before income tax				5,911
Total assets	130,718	37,497	(15,737)	152,478
Non-current asset additions	3,258	2,727	—	5,985
Depreciation	1,751	1,926	—	3,677
Total liabilities	(26,951)	(10,560)	9,315	(28,196)

The following shows the revenues, results and total assets by reportable segment for the year ended 31 March 2018.

	Foundry operations £'000	Machining £'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 income/(costs):				
Exceptional credit for recovery of Icelandic bank deposits previously written off				109
Defined benefit pension costs				(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)

5. Dividends

Amounts recognised as distributions to shareholders in the period:

	Half year to 30 September 2018 £'000	Half year to 30 September 2017 £'000
Final dividend of 11.12p per share for the year ended 31 March 2018 (2017 – 10.59p per share)	**4,852**	4,618
	4,852	4,618

The directors have declared an interim dividend in respect of the financial year ending 31 March 2019 of 3.38p per share (2018 – 3.38p), which will be paid on 2 January 2019.

6. Earnings per share and diluted earnings per share

Earnings per share is calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. There are no share options or other potentially issuable shares; hence the diluted earnings per share is the same calculation.

	Unaudited Half year to 30 September 2018	Unaudited Half year to 30 September 2017	Audited Year to 31 March 2017
Profit after tax (£'000)	**4,677**	4,790	9,798
Weighted average number of shares	**43,632,068**	43,632,068	43,632,068
Earnings per share — basic and diluted	**10.72p**	10.98p	22.46p

7. Pension schemes

The group operates two defined benefit pension schemes which are closed to new entrants and closed to future accruals on 6 April 2009. The assets of the schemes are independent of the finances of the group and are administered by trustees.

The pension schemes are related parties of the group and during the period £1,228,000 (2017 – £1,227,000) was paid by the group on behalf of the schemes in respect of pension payments and administration costs. At 30 September 2018, of the outstanding balance of £6,818,000 (2017 – £6,618,000), £1,135,000 (2017 – £2,269,000) is classified as a non-current other receivable and is repayable on 30 November 2019. Payments made by the company on behalf of the schemes in the current period are repayable on 30 November 2020.

8. Interim report
Copies of this interim management report will be available on the company's website, www.castings.plc.uk, and from the registered office.

Statement of Directors' Responsibilities
The directors confirm that the condensed consolidated interim financial statements have been prepared in accordance with IAS 34 as adopted by the European Union and that the interim management report includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R.

By order of the board

S. J. MANT FCA
Group Finance Director
13 November 2018