

**Castings P.L.C.****INTERIM MANAGEMENT REPORT**

Six months ended

30 September 2017

**Interim Management Report**

Sales for the six months ended 30 September 2017 were £61.7 million (2016 – £57.9 million) with profit before tax of £5.91 million (2016 – £7.08 million).

*Foundry operations*

As previously reported, customer demand during the period remained steady with output of 23,500 tonnes (2016 – 23,600 tonnes) and external sales revenue up 7.9% to £58.5 million. The revenue figure includes the impact of rising steel scrap prices during the period which have been passed on to customers. In addition, the continued shift to more machined parts results in higher average selling prices.

The profit from the foundry segment of £6.9 million represents an increase of 10.5% from the previous period. This reflects the significant progress made in production and productivity improvements across the two foundry businesses. The result has been negatively impacted by the time lag in passing on raw material price increases and costs associated with the disruption in supply from the machining business.

Investment of £3.3 million has been made during the period to support the automation programme that continues to be rolled out.

*Machining operation*

CNC Speedwell generated external revenue of £3.3 million during the period, a decrease of 10.9% compared to the previous period, with a reported loss of £1.0 million compared to a profit of £0.8 million in the previous period.

The business has experienced significant issues, including production problems, during the period which have impacted both the machining and foundry operations.

Following a detailed review of the operation, additional short-term costs have been identified and included in the result for the period. The main areas impacted are stock obsolescence and the recoverability of tooling costs which, when taken with the director severance cost, have reduced group profits by £1.0 million.

The Managing Director of CNC resigned from the board on 2 October 2017. The management structure of the business remains under review, including the appointment of a new Managing Director.

The investment during the period of £2.7 million has been made primarily to support demand from core business customers. It is not anticipated that any significant further investment will be made in the short term for work that falls outside of this strategy.

*Outlook*

Demand from our commercial vehicle customer base remains steady and therefore the full year result for the foundry operations is anticipated to be in line with market expectations.

The changes being made at the machining operation are not expected to have any meaningful impact on profitability during the remainder of the year. However, from the start of 2018/19 we anticipate the machining operation to return to an acceptable level of profitability.

The previously reported replacement work for CNC Speedwell has been reassessed in response to the issues experienced during the period. As a result of this review, the decision has been taken to exit certain non-core projects. Whilst this will most likely delay the revenue growth of the group, the directors believe there are sufficient opportunities available within the core customer base to replace this in the medium term.

*Dividend*

An interim dividend of 3.38 pence per share has been declared and will be paid on 2 January 2018 to shareholders who are on the register at 24 November 2017.

**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 2017.

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**

Mark Lewis stepped down from the board on 2 October 2017 and left the business on 20 October 2017.

**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  
10 November 2017

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

## Consolidated Statement of Comprehensive Income

For six months ended 30 September 2017

	Unaudited Half year to 30 September 2017 £'000	Unaudited Half year to 30 September 2016 £'000	Audited Year to 31 March 2017 £'000
<b>Revenue</b>	61,728	57,863	118,822
Cost of sales	(47,720)	(43,567)	(88,634)
<b>Gross profit</b>	14,008	14,296	30,188
Distribution costs	(1,289)	(901)	(1,939)
Administrative expenses			
Excluding exceptional	(6,851)	(6,385)	(12,701)
Exceptional	—	—	130
Total administrative expenses	(6,851)	(6,385)	(12,571)
<b>Profit from operations</b>	5,868	7,010	15,678
Finance income	43	67	237
<b>Profit before income tax</b>	5,911	7,077	15,915
Income tax expense	(1,121)	(1,415)	(2,911)
<b>Profit for the period attributable to the equity holders of the parent company</b>	4,790	5,662	13,004
<b>Other comprehensive income/(expense) for the period:</b>			
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	—	—	235
	—	—	235
Items that may be reclassified subsequently to profit and loss:			
Change in fair value of available for sale financial assets	(42)	53	54
Tax effect of items that may be reclassified	8	(10)	(10)
	(34)	43	44
<b>Total other comprehensive (losses)/income for the period (net of tax)</b>	(34)	43	279
<b>Total comprehensive income for the period attributable to the equity holders of the parent company</b>	4,756	5,705	13,283
<b>Earnings per share attributable to the equity holders of the parent company</b>			
Basic and diluted	10.98p	12.98p	29.80p

**Consolidated Balance Sheet**

30 September 2017

	Unaudited 30 September 2017 £'000	Unaudited 30 September 2016 £'000	Audited 31 March 2017 £'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	75,070	71,023	72,762
Financial assets	366	407	408
Other receivables	2,269	3,383	2,269
	<b>77,705</b>	<b>74,813</b>	<b>75,439</b>
<b>Current assets</b>			
Inventories	14,574	12,706	14,063
Trade and other receivables	35,685	30,632	33,189
Other current interest-bearing deposits	5,000	10,000	5,000
Cash and cash equivalents	19,514	13,343	22,228
	<b>74,773</b>	<b>66,681</b>	<b>74,480</b>
<b>Total assets</b>	<b>152,478</b>	<b>141,494</b>	<b>149,919</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	23,001	17,537	19,866
Current tax liabilities	1,090	1,457	1,855
	<b>24,091</b>	<b>18,994</b>	<b>21,721</b>
<b>Non-current liabilities</b>			
Deferred tax liabilities	4,105	4,459	4,054
<b>Total liabilities</b>	<b>28,196</b>	<b>23,453</b>	<b>25,775</b>
<b>Net assets</b>	<b>124,282</b>	<b>118,041</b>	<b>124,144</b>
<b>Equity attributable to equity holders of the parent company</b>			
Share capital	4,363	4,363	4,363
Share premium account	874	874	874
Other reserve	13	13	13
Retained earnings	119,032	112,791	118,894
<b>Total equity</b>	<b>124,282</b>	<b>118,041</b>	<b>124,144</b>

**Consolidated Cash Flow Statement**

For six months ended 30 September 2017

	Unaudited Half year to 30 September 2017 £'000	Unaudited Half year to 30 September 2016 £'000	Audited Year to 31 March 2017 £'000
<b>Cash flows from operating activities</b>			
Profit before income tax	5,911	7,077	15,915
Adjustments for:			
Depreciation	3,677	3,299	7,276
Profit on disposal of property, plant and equipment	—	—	(24)
Finance income	(43)	(67)	(237)
Pension administrative costs	—	—	235
Increase in inventories	(511)	(714)	(2,071)
(Increase)/decrease in receivables	(535)	334	(2,661)
Increase in payables	3,134	768	3,098
<b>Cash generated from operating activities</b>	<b>11,633</b>	<b>10,697</b>	<b>21,531</b>
Tax paid	(1,826)	(1,916)	(3,419)
Interest received	30	52	213
<b>Net cash generated from operating activities</b>	<b>9,837</b>	<b>8,833</b>	<b>18,325</b>
<b>Cash flows from investing activities</b>			
Dividends received from listed investments	13	15	24
Purchase of property, plant and equipment	(6,719)	(7,374)	(14,214)
Proceeds from disposal of property, plant and equipment	—	—	23
Transfer from other current interest-bearing deposits	—	—	5,000
Repayments from pension schemes	—	—	3,761
Advances to pension schemes	(1,227)	(919)	(2,004)
<b>Net cash used in investing activities</b>	<b>(7,933)</b>	<b>(8,278)</b>	<b>(7,410)</b>
<b>Cash flow from financing activities</b>			
Dividends paid to shareholders	(4,618)	(17,597)	(19,072)
<b>Net cash used in financing activities</b>	<b>(4,618)</b>	<b>(17,597)</b>	<b>(19,072)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(2,714)</b>	<b>(17,042)</b>	<b>(8,157)</b>
Cash and cash equivalents at beginning of period	22,228	30,385	30,385
<b>Cash and cash equivalents at end of period</b>	<b>19,514</b>	<b>13,343</b>	<b>22,228</b>
<b>Cash and cash equivalents:</b>			
Short-term deposits	16,608	11,364	21,362
Cash available on demand	2,906	1,979	866
	<b>19,514</b>	<b>13,343</b>	<b>22,228</b>

## Consolidated Statement of Changes in Equity

Unaudited	Equity attributable to equity holders of the parent				Total equity £'000
	Share capital £'000	Share premium £'000	Other reserve £'000	Retained earnings £'000	
<b>At 1 April 2017</b>	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)
<b>At 30 September 2017</b>	4,363	874	13	119,032	124,282

Unaudited	£'000	£'000	£'000	£'000	£'000
<b>At 1 April 2016</b>	4,363	874	13	124,683	129,933
Profit for the period	—	—	—	5,662	5,662
Other comprehensive income/(losses):					
Change in fair value of available for sale assets	—	—	—	53	53
Tax effect of items taken directly to reserves	—	—	—	(10)	(10)
Total comprehensive income for the period ended 30 September 2016	—	—	—	5,705	5,705
Dividends	—	—	—	(17,597)	(17,597)
<b>At 30 September 2016</b>	4,363	874	13	112,791	118,041

Audited	£'000	£'000	£'000	£'000	£'000
<b>At 1 April 2016</b>	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 loss	—	—	—	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	—	—	—	(19,072)	(19,072)
<b>At 31 March 2017</b>	4,363	874	13	118,894	124,144

## 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 2017 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 2017 does not constitute the full statutory accounts for that period. The Annual Report and Financial Statements for the year ended 31 March 2017 have been filed with the Registrar of Companies. The Independent Auditors' Report on the Annual Report and Financial Statements for 2017 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.

### 3. Seasonality of operations

The directors do not consider there to be any significant seasonality or cyclicity 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 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 half year to 30 September 2016.

	Foundry operations £'000	Machining £'000	Elimination £'000	Total £'000
Revenue from external customers	54,187	3,676	—	57,863
Inter-segmental revenue	8,436	8,049	—	16,485
Segmental result	6,212	798	—	7,010
Unallocated income:				
Finance income				67
Profit before income tax				7,077
Total assets	120,303	33,596	(12,405)	141,494
Non-current asset additions	4,947	2,427	—	7,374
Depreciation	1,525	1,774	—	3,299
Total liabilities	(23,372)	(6,047)	5,966	(23,453)

The following shows the revenues, results and total assets by reportable segment for the year ended 31 March 2017.

	Foundry operations £'000	Machining £'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 income/(costs):				
Exceptional credit for recovery of Icelandic bank deposits previously written off				130
Defined benefit pension costs				(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)

## 5. Dividends

Amounts recognised as distributions to shareholders in the period:

	Half year to 30 September 2017 £'000	Half year to 30 September 2016 £'000
Final dividend of 10.59p per share for the year ended 31 March 2017 (2016 – 10.33p per share)	4,618	4,507
Supplementary dividend of nil pence per share for the year ended 31 March 2017 (2016 – 30.00p)	—	13,090
	4,618	17,597

The directors have declared an interim dividend in respect of the financial year ending 31 March 2018 of 3.38p per share (2017 – 3.38p), which will be paid on 2 January 2018.

## 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 2017	Unaudited Half year to 30 September 2016	Audited Year to 31 March 2017
Profit after tax (£'000)	4,790	5,662	13,004
Weighted average number of shares	43,632,068	43,632,068	43,632,068
Earnings per share — basic and diluted	10.98p	12.98p	29.80p

## 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 £1,227,000 (2016 – £919,000) was paid by the group on behalf of the schemes in respect of pension payments and administration costs. At 30 September 2017 of the outstanding balance of £6,618,000 (2016 – £8,067,000), £2,269,000 (2016 – £3,383,000) is classified as a non-current other receivable and is repayable in two equal annual instalments commencing on 30 November 2018. Payments made by the company on behalf of the schemes in the current period are repayable on 30 November 2018.

## 8. Interim report

Copies of this interim management report will be available on the company's website, [www.castings.plc.uk](http://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.

The directors of Castings P.L.C. are listed on the back cover of this report.

By order of the board

S. J. Mant FCA  
Group Finance Director  
10 November 2017