Final Results

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Carclo plc

("Carclo" or the "Group")

Preliminary Results for the year ended 31 March 2019

Carclo plc, a global manufacturer, principally of fine tolerance injection moulded plastic parts for the medical, automotive lighting and optics markets, announces its results for the full year ended 31 March 2019 ("2019").

The key financial performance measures for the year are as follows:

	Year ended 31 March 2019 £000	Year ended 31 March 2018 £000
Revenue	**144,851**	146,214
Proforma* unaudited adjusted operating profit	**8,419**	10,811
Proforma* unaudited adjusted profit before tax	**6,358**	9,071
Proforma* unaudited adjusted earnings per share	**7.0p**	9.8p
Underlying operating profit	**1,315**	10,811
Underlying (loss)/profit before tax**	**(746)**	9,071
Underlying (loss)/earnings per share**	**(2.7p)**	9.8p
Statutory operating (loss)/profit	**(12,593)**	9,907
(Loss)/profit before tax	**(14,654)**	8,167
Basic (loss)/earnings per share	**(25.4p)**	11.6p
Proforma unaudited adjustment	**7,104**	-
Exceptional items	**13,908**	904
Net debt	**38,481**	31,476
IAS 19 retirement benefit liability	**49,121**	29,798

Revenue		
Technical Plastics	90,843	89,653
LED Technologies	47,288	50,589
Aerospace	6,720	5,972
Total	**144,851**	**146,214**
Underlying operating profit		
Technical Plastics	6,846	6,673
LED Technologies	(3,857)	6,422
Aerospace	1,298	747
Unallocated	(2,972)	(3,031)
Total	**1,315**	**10,811**

- 2019 was a challenging year for the Group, with a significant deterioration in the profitability of the LED Technologies division more than offsetting encouraging performances in Technical Plastics and Aerospace
- Revenue decreased by 1.0% to £144.9m (2018: £146.2m)
- Proforma unaudited adjusted operating profit reduced by £2.4m to £8.4m, with underlying operating profit down £9.5m to £1.3m

- After exceptional items of £13.9m and the unaudited proforma exceptional price concession of £7.1m following the exit of the Group's mid volume automotive business, the statutory operating loss was £12.6m (2018: profit of £9.9m) with statutory loss before tax being £14.7m (2018: profit of £8.2m)
- Proforma unaudited adjusted profit before tax reduced by £2.7m to £6.4m, with underlying loss before tax of £0.7m

*proforma unaudited adjusted profit is defined as profit before all exceptional items and the proforma unaudited exceptional price concession on exit from the mid-volume automotive business.

**underlying profit is defined as profit before all exceptional items, excluding the proforma exceptional price concession on exit from the mid-volume business.

A reconciliation to statutory figures is given on page 53.

Commenting on the results, Mark Rollins, Chairman said:

"The year to 31 March 2019 was an extremely challenging one for Carclo, with Wipac's poor operational and financial performance putting significant pressure on the whole Group. However, with Technical Plastics and Aerospace delivering encouraging performances in 2019, which have continued in the first half of the current year, and Wipac's immediate cash needs being funded by its customers, the Group's net debt has fallen over the past six months. This is providing a foundation for the ongoing long-term funding and pension contribution negotiations which, along with a successful exit from the Wipac business, are key to the future of Carclo."

Further Information

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Forward looking statements

Certain statements made in these report & accounts are forward looking statements. Such statements are based on current expectations and are subject to a number of risks and uncertainties that could cause actual events to differ materially from any expected future events or results referred to in these forward-looking statements.

Alternative performance measures

Alternative performance measures are defined in the glossary on page 22. A reconciliation to statutory figures is included on page 53. The Directors believe that alternative performance measures provide a more useful comparison of business trends and performance. The terms 'underlying' and 'proforma unaudited adjusted' are not defined under IFRS and may not be comparable with similarly titled measures used by other companies.

After the year end, the strategic decision was taken to exit from the mid volume automotive business. As part of this exit process, one-off price concessions totalling £7.1m were given on certain mid-volume contracts. An additional performance measure, "proforma unaudited adjusted profit" is given which is defined as profit before exceptional items and before the proforma unaudited exceptional price concession on exit from the mid-volume automotive business. The Directors believe that disclosure of this additional performance measure is useful to aid understanding of the performance of the business excluding this impact of the strategic decision taken to exit from this sector.

Chairman's Statement

Overview

The year to 31 March 2019 ("2019") was an extremely challenging one for Carclo, and this remains the case today.

The operating and financial performance at Wipac, the main business in the LED Technologies Division ("LED"), deteriorated through the year, driven by a significant number of new programme launches.

The Group's other operations made good progress during the year, with the Carclo Technical Plastics Division ("CTP") and the smaller Aerospace Division ("Aerospace") both seeing year-on-year improvements in underlying operating profits.

Overall, Group proforma[1] unaudited adjusted profit before tax decreased by £2.7m to £6.4m (2018: £9.1m) and net debt increased to £38.5m (2018: £31.5m). The statutory loss before tax was £14.7m (2018: profit £8.2m). Underlying[2] loss before tax was £0.7m (2018: profit £9.1m).

A turnaround plan for Wipac, involving customer support and operational self-help, was implemented after the year-end, on 1 July 2019, with the aim of returning Wipac to a position of profitability and cash generation over the following eighteen months. A number of approaches were received from parties interested in the potential acquisition of Wipac and the Board is actively pursuing its sale. Discussions remain ongoing, but there remains no certainty that a sale of Wipac will occur. In the event that no disposal occurs, the Board will need to assess the options for this business.

Against this background, Carclo's sole lender has agreed to extend the Group's existing banking facilities until January 2021. An agreement has also been reached with the Pension Trustee as to the level of the Group's contributions to the pension scheme over the same period. Longer-term banking facilities, together with a formal pension deficit reduction plan, will now need to be put in place over the coming months.

Looking forward, the Board is focused on developing a business that generates sufficient cash, on an ongoing basis, to meet the needs of all of its stakeholders. The CTP Division, principally operating in the growing medical diagnostics market, and the smaller niche market Aerospace Division both provide a solid foundation to build on for the future. This leaves delivering a near-term solution for Wipac as key to the future of the Carclo Group.

[1] Proforma unaudited adjusted profit is defined as profit before all exceptional items and the proforma unaudited exceptional price concession on exit from the mid-volume automotive business.

[2] Underlying profit is defined as profit before all exceptional items, excluding the proforma unaudited exceptional price concession on exit from the mid-volume business.

Strategy

The Group's historic strategy of growing CTP, principally through focusing on the medical market, and growing the LED Technologies Division, principally by moving the Wipac business from low to mid-volume vehicles, was successful in that new programmes were awarded, and revenue grew relatively strongly, in both Divisions. However, this success resulted in significant capital expenditure being incurred in footprint expansion, plant and machinery and, in the case of Wipac, also in significant investment in the design and development of new mid-volume automotive lighting programmes.

As a consequence of this investment, together with the outstanding debt incurred in prior years from the Group's failed investments in CIT Technology and CDS (Carclo Diagnostic Solutions), the Group reached a position where it was approaching the limit of available funds under its existing borrowing facilities. This situation was then exacerbated by the newly awarded programmes being launched into an operationally weak environment.

In CTP this resulted in lower than anticipated performance in 2018 and H1 2019. Pleasingly management changes, including the appointment of a new Divisional CEO, and a focus on operational excellence and cash generation are now having an impact. The results for H2 2019 were significantly ahead of H1 and prospects for year-on-year improvement in 2020 are encouraging. Specific strategic successes and actions in CTP over the past year include: a reduction in the Czech footprint, to enhance profitability; good progress being made in the operational turnaround at the main facility in North America, including the recent development of a dedicated assembly hall; the Indian facility becoming accredited to medical standards and receiving its first medical programme; the Chinese operation extending its medical customer base; and the UK facility successfully bringing into production a large high-quality medical programme which has resulted in a further award from the same customer after the year end.

Wipac is the main business in the LED Technologies Division and it is here that the effects of the historic strategic decisions and operational weakness have had the greatest impact. During the 2019 financial year, Wipac sought to launch a number of low-volume high-end automotive lighting programmes in close succession whilst, at the same time, working on three significant mid-volume programmes, one of which required a greenfield factory to be set up in North America. This volume of activity combined with cash constraints, significant operational weakness and a lack in depth of human capital unfortunately saw business performance deteriorate rapidly. Significant resources were then required to keep customers supplied with product, and able to manufacture vehicles, which resulted in significant losses being incurred by the business. It was likely that the situation would only get worse if Wipac continued on the path of seeking to deliver the mid-volume programmes as it had neither the cash nor human capital to be successful. Accordingly, in consultation with its customers, the decision was jointly taken to exit these three programmes and for Wipac to then refocus its business on the low-volume high-end automotive market where it had for many years been financially successful. At the time of writing, this exit programme is nearing completion, with the realisation of certain related assets resulting in the level of Group net debt improving during the past few months.

For the good of the Group, a near-term and permanent solution for Wipac needs to be delivered as its current cash requirements cannot be met by the Group beyond the short term. Increased temporary levels of customer support are helping to meet the cashflow needs of the Wipac business while a disposal of the Wipac operation is actively pursued.

Whilst the Aerospace Division continued to perform well through the period, principally as the result of its niche markets and strong hands-on leadership, it was in danger of being adversely impacted by the lack of cash for investment. Its needs are modest and looking forward the management team are now being encouraged to seek growth opportunities even where they require investment. The Division is strongly cash generative and it can readily fund the levels of investment required from its own resources.

Dividend

Given the financial performance and position of the Group, the Board is not recommending the payment of a dividend for the 2019 financial year (2018: nil). The payment of dividends will only recommence when the Group's finances are on a more stable and stronger footing and no dividend is envisaged to be paid in respect of the current year.

Governance

Details of the Board's governance actions are set out in the Governance section of this report. As part of the Board's programme over the past 18 months it has visited: two of the North American facilities, including a day focused on Group strategy with the three Divisional CEOs participating; and both the UK CTP facility and Wipac where factory visits and presentations from local management were received. In the same period, I have personally visited all of the Group's operations bar two. An improved senior management succession planning process was introduced in the year and the Senior Independent Director ("SID"), Peter Slabbert, led a full evaluation of the Board towards the end of the period. In the current challenging circumstances, the frequency of Board meetings and calls has increased significantly, and I would like to thank all the directors and the company secretary for fully embracing the increased workload.

In this regard, the Board was also fully involved during Summer 2018 in dealing with the interest of Consort Medical plc in acquiring the Carclo Group. The Board fully engaged with Consort but after presentations and discussions, Consort decided not to pursue their interest any further as they determined, as the Board had anticipated at the outset of the process, that Carclo did not make a good strategic fit for their business.

Board Changes

There were a number of changes to the Board during the 2019 financial year: Joe Oatley joined in July 2018 as a Non-Executive Director and Sarah Matthews-DeMers in July 2018 as Group Finance Director. I then took over from Mike Derbyshire as Chairman at the conclusion of the AGM on 19 July 2018.

In January 2019, following disappointing results from Wipac, the Group CEO, Chris Malley stepped down from the Board and I became Executive Chairman on an interim basis, whilst a Group CEO was recruited.

In July 2019, Sarah Matthews-DeMers informed the Board that she would be leaving the Group towards the end of October to take up the CFO role at AB Dynamics plc. In her short time with the Group, Sarah has worked tirelessly on behalf of the Company and has made a strong positive impression with everybody she has met. The Board wishes her well for the future. Ed Watkinson was appointed as Group Chief Finance Officer designate on 30 September 2019 and took over on Sarah's departure. It is currently planned that Ed will fill the Group Chief Finance Officer role on an interim basis and will not, at least initially, join the Board.

Antony Collins, who has been fulfilling the role of Chief Restructuring Officer since he joined the Group at the end of May 2019, has been appointed as the Group Chief Executive and joined the Board with effect from 1 October 2019. At this time, I ceased to act in an Executive capacity and returned to a Non-executive Chairman role. It is currently planned that Antony will fill the Group Chief Executive Officer role on an interim basis whilst the ongoing restructuring of the Group is completed and a platform from which to set the long-term strategy is established.

Recognition should also be given to Chris Malley and Mike Derbyshire, for their respective six- and twelve-years' service on the Board, and to Richard Ottaway who stepped up to act as Interim Group Finance Director prior to Sarah joining the Group.

Employees

The past year has seen the CTP and Aerospace businesses making encouraging operational and financial improvements for which the Board would like to thank all their employees. In addition, the Board fully recognises the hard work and commitment of many of Wipac's employees, operating in often difficult circumstances during the year.

Going Concern

The accounts for 2019 have been prepared on a going concern basis, with existing bank facilities having been extended until January 2021 and agreement having been reached with the Pension Trustee for the level of company contributions to the pension scheme over the same period. The forecast projections for the Group's performance over this fifteen-month period have been reviewed by the Directors and the Board has concluded that, whilst there is a material uncertainty that may cast significant doubt upon the ability to continue as a going concern, subject to the successful disposal of the Wipac business in the near-term or, in the absence of this, to appropriate actions being taken to protect the Group from Wipac's underlying losses and subject to the ongoing support of the Group's lending bank, the Group should be able to continue in operation and meet its liabilities as they fall due over the period considered.

Outlook

CTP continues to make solid cash generative progress and the results for the Division, for the financial year to 31 March 2020 ("2020"), are expected to be ahead of those for 2019. Aerospace, operating in a niche but limited growth market, is anticipated to again deliver healthily profitable results in 2020, albeit at a slightly lower margin than in 2019. However, the outlook for the year for the Wipac business is uncertain and its near-term future is dependent upon continued support from customers and the success of the ongoing sale process. Pleasingly, since the year end, the Group's net debt has reduced due to receipt of payments for Wipac design and development programmes and the cash generation of the CTP and Aerospace divisions. The Board believes it is taking the right actions to establish a solid platform from which the Group can build on the strengths of the CTP and Aerospace businesses, but the Group's financing position remains a risk whilst this restructuring is ongoing.

Mark Rollins

Chairman

31 October 2019

Operating Review

While the business made progress in the Carclo Technical Plastics and Aerospace Divisions, trading results were significantly below the Board's expectations and the prior year due to significant operational issues in the LED Technologies Division.

Group revenue decreased by 1.0% to £144.9m (2018: £146.2m). Proforma[3] unaudited adjusted operating profit was down £2.4m to £8.4m (2018: £10.8m) and proforma unaudited adjusted earnings before interest, tax, depreciation and amortisation ('EBITDA') fell £1.8m to £14.0m. Underlying[4] operating profit was down £9.5m to £1.3m (2018: £10.8m).

The statutory operating loss was £12.6m (2018 profit: £9.9m) with statutory loss before tax of £14.7m (2018: profit of £8.2m).

[3] Proforma adjusted profit is defined as profit before all exceptional items and the proforma unaudited exceptional price concession on exit from the mid-volume automotive business.

[4] Underlying profit is defined as profit before all exceptional items, excluding the proforma unaudited exceptional price concession on exit from the mid-volume business.

Divisional review

Carclo Technical Plastics ('CTP')

In CTP, solid progress was made in the second half of the year with the planned operational improvement programme delivering encouraging results, albeit at a slower rate than anticipated. As a result, full year underlying operating profits for this Division were slightly up on the prior year at £6.8m (2018: £6.7m) with the second half much improved over the first. Statutory operating profit was £6.5m (2018: £6.6m).

Revenue grew by 1% to £90.8m (2018: £89.7m) as a result of the ramp up of a number of new programmes in the UK and improved sales in the US and India, offset by currency movements. Underlying operating margin increased from 7.4% to 7.5%, improving significantly in the second half, reaching 9.2% for that period, as the labour shortages and programme delays experienced in the first half of the year were resolved.

Our US business continued to experience operational challenges through the first half of the year due to direct labour shortages. A significant investment in employee welfare has been made and while labour turnover remains higher than we would like, the position has stabilised. Changes to shift patterns along with new recruitment procedures and improved training led to improvements in the second half. We appointed a new US Operations Director and a Continuous Improvement Director at our main Pennsylvania operation, with this new management team focused on operational and other efficiency improvements under our previously highlighted operational improvements programme.

In the UK, margins have improved as new production programmes have commenced, using the additional capacity at the Mitcham facility which was put in place last year.

In India, the mainly non-medical business has seen healthy growth with a better mix of higher margin products. We recently obtained approval to supply medical work from this facility, in line with our strategy of focusing on this market, and have now been awarded the first medical programme.

Our facility in China experienced some issues with de-stocking in the local market; however, overall margins have been maintained through efficiency and commercial efforts. To date there has been no significant impact of the US trade tariffs although we continue to monitor this closely. Recent new customer wins bode well for the long-term prospects of the business.

Our Czech business has addressed the labour shortages experienced in the prior year and has benefited from a new medical production programme which commenced during the second half. As one of our non-medical programmes was scheduled to finish shortly after the year end, in October we announced plans to reduce the footprint of this facility to further improve the site's future profitability. We expect to generate annual cost savings of £0.2m, with a payback of c.2 years on restructuring costs of c.£0.4m, the majority of which are non-cash. This supports our strategy of increasing our focus on medical work within the division.

Outlook

Operating margins in CTP are expected to continue to improve year on year in 2020 as volumes in new contracts ramp up and further commercial and operational improvements are delivered. We have implemented a number of price increases, efficiency improvements and cost savings across the division, the benefits of which are expected to positively impact margins in the coming year.

LED Technologies

Revenue fell by £3.3m or 6.5% to £47.3m (2018: £50.6m). Production revenues increased by 24% while design, development and tooling revenues decreased by 41% after the exit of the mid-volume business.

Proforma unaudited adjusted operating profit fell to £3.2m (2018: £6.4m) while the equivalent operating margin reduced from 12.7% to 6.9% as a result of the operational issues associated with many new programmes being launched into a weak production environment. Following the year end, the decision was taken to exit the mid-volume automotive business which was accompanied by agreed one-off price concessions with customers. Following this decision the Division has recognized the effects of these price concessions as an additional loss in 2019 of £7.1m which contributed to an underlying operating loss of £3.9m (2018: profit £6.4m).

Statutory operating loss for the LED Technologies Division was £13.3m (2018 profit: £6.4m).

Wipac, the main operating business in the Group's LED Technologies Division, had been very successful in winning low-volume automotive lighting programmes together with more recent wins in the mid-volume range. As reported at the half year, an unprecedented number of these low-volume programmes were launched into production during the year into what became clear was an unstable manufacturing environment and the business initially struggled to meet customer requirements. Unfortunately, this situation worsened in the third quarter as the short term operational growing pains continued longer than anticipated with demand continuing to grow. The consequences of this have been significant with adverse operational variances, expedited freight deliveries and poor customer service leading to additional unplanned costs and to delays in new programme awards.

Previously, the business's strategic objective was to move into mid-volume vehicle programmes. The first of these mid-volume programmes moved into production during the year; two more were scheduled for early in the next financial year. During the year Wipac was also nominated to supply lighting for two new mid-volume electric vehicles. One of these programmes required a new manufacturing facility to be set up in the US with significant capital investment and working capital requirements.

This move required significant investment in a number of areas in advance of the anticipated revenue growth, including investment in engineering and support services, and additional warehousing and office space, which in turn led to an increase in overheads. Customers in this segment of the market generally pay for design, development and tooling in arrears. With the increased complexity of larger projects, there were a number of delays and issues with validation of the production tooling leading to a significant build in working capital.

The business was stretched beyond its current operational capabilities and following the year end, Wipac operating losses increased significantly, with the business continuing to struggle to meet increasing customer demand. As a result, the Board took the strategic decision to refocus the operation on its historic low-volume high-end vehicle markets where it had previously been financially successful. Following discussions with customers, it was agreed that alternative suppliers would be found for the new US programme and two of the other mid-volume programmes, whilst two of the smaller mid-volume contracts would be retained.

As well as managing the smooth exit of certain programmes, focus has been placed on significantly reducing the Group's future cash requirements for working capital and capital expenditure, with a detailed plan put in place to turn around the financial and operational performance of the ongoing Wipac business. The plan has two major elements to it: customer support and operational self-help. The Wipac business is currently incurring significant losses and increased levels of temporary customer support are helping to meet its short-term cashflow needs.

Discussions with customers for earlier than planned reimbursement of amounts incurred by Wipac for the design and development of future production programmes were successful, with a total of £19.0m received in cash since the year end. This money was used to pay overdue suppliers and to reduce the level of Group net debt.

The carrying value of the LED Division has been reviewed in light of the operational issues and an impairment loss of £8.5m has been recognised, being £1.1m as full impairment of the goodwill relating to LED, £7.1m against LED tangible fixed assets and £0.3m against LED intangible assets

Outlook

The Group received a number of approaches from parties, both trade and financial, interested in the potential acquisition of Wipac. Discussions with these parties are ongoing but there is no certainty that a sale of Wipac will occur. Since the year end, the Wipac business has been classified as held for sale. It is currently receiving significant financial support from its customers pending a sale of the business. In the event that no sale occurs, the Board will need to assess the future options for this business.

Aerospace

Revenue increased by £0.7m to £6.7m (2018: £6.0m) and underlying operating profit increased 74% to £1.3m (2018: £0.7m), as a result of cost control and a beneficial sales mix.

Spares demand has stabilised and some new programmes have moved into serial production during the year.

This business continues to be both profitable and cash generative, with ongoing investment requirements being funded by the business itself.

Outlook

The prospects for this business remain encouraging, although 2020 is expected to deliver slightly lower margins due to greater investment in human capital to ensure sustained future performance.

Key Performance Indicators ('KPIs')

Historically our three primary KPIs have focused on Return on Capital Employed, revenue growth and operating margin and these are detailed in the Annual report and Accounts. In light of the revised focus on the CTP and Aerospace Divisions since the year end, we will be defining a new set of KPIs appropriate to the ongoing business.

Alongside these KPIs we have a range of other important internal KPIs which cover health and safety performance, Overall Equipment Effectiveness ('OEE'), employee retention, customer satisfaction, delivery performance and cash collection.

Finance Review

Trading performance

Revenue decreased 1% to £144.9m (2018: £146.2m) with CTP up 1%, LED Technologies down 7% and Aerospace up 13%.

Proforma[5] unaudited adjusted operating profit decreased to £8.4m (2018: £10.8m) and proforma unaudited adjusted earnings before interest, taxation, depreciation and amortisation declined to £14.0m (2018: £15.8m). This represents a return on sales (defined as EBITDA divided by revenue) of 10% (2018: 11%). Underlying[6] operating profit was £1.3m (2018: £10.8m)

CTP and Aerospace underlying operating profits grew by 3% and 74% respectively, however the operational issues experienced in Wipac resulted in a 49% decrease in proforma unaudited adjusted operating profits over the prior year for the LED Division.

After net interest of £2.1m (2018: £1.7m), proforma unaudited adjusted profit before tax was £6.4m (2018: £9.1m).

Net bank interest increased £0.2m to £1.1m, reflecting the Group's higher average debt during the year as a result of the working capital build in advance of the launch of a number of new medium volume contracts in LED Technologies. The pension finance charge remained constant at £0.8m.

The Group proforma unaudited adjusted tax charge totalled £1.2m (2018: £1.9m), a proforma unaudited adjusted effective tax rate of 19.2% (2018: 20.6%). The effective tax rate is higher than the current UK corporation tax rate because a large proportion of the Group's profits are generated in the US and India where the corporation tax rates are higher than the UK.

Basic proforma unaudited adjusted earnings per share were 7.0p (2018: 9.8p).

As set out in Note 7, the exceptional price concession of £7.1m related to the strategic decision to exit from the mid-volume automotive business. Exceptional items totalled £13.9m of which £8.5m relates to impairment of the LED Technologies Division which has been written down to its recoverable amount. The remainder relates to one-off items in relation to the operational issues at Wipac, including stock write-offs, impairment charges and consultants' costs. In addition, exceptional costs were incurred in respect of the restructuring of the Czech facility, Board changes, other recruitment and redundancy costs and pensions GMP equalisation.

Statutory operating loss from continuing operations was £12.6m (2018: £9.9m profit), and after statutory finance expenses of £2.1m (2018: £1.7m), statutory loss before tax was £14.7m (2018: £8.2m profit), giving a statutory loss per share of 25.4p (2018: 11.6p earnings). The statutory tax charge was £4.0m, compared with a tax credit in 2018 of £0.3m, as the prior year benefited from a reduction in deferred tax liabilities from the introduction of lower tax rates in the US. A reconciliation of statutory to underlying non-GAAP financial measures is provided on page 53.

[5] Proforma unaudited adjusted profit is defined as profit before all exceptional items and after adding back the proforma unaudited exceptional price concessions on exit from the mid-volume automotive business.

[6] Underlying profit is defined as profit before all exceptional items, excluding the proforma unaudited exceptional price concession on exit from the mid-volume business.

Net debt

Net debt at the end of the year was £38.5m (2018: net debt of £31.5m). Operating activities generated cash of £1.8m (2018: £3.5m) as the move into mid-volume production resulted in a working capital build of £2.9m, mainly in relation to design, development and tooling programmes in the LED Technologies Division.

In the year, the Group invested £7.0m (2018: £9.1m) in property, plant and equipment, and software, mainly in relation to plant and machinery to support new programme wins in the CTP Division. This represented 126% of the total Group depreciation charge.

Pension contributions totalled £1.7m (2018: £1.9m), being £1.2m of deficit recovery payments and £0.5m in relation to scheme administration costs.

At the year end, total UK bank facilities were £47.0m of which £30.0m related to a revolving credit facility and £17.0m to an overdraft facility. £44.0m was drawn at the year end. The medium-term multi-currency revolving credit facility which was due to expire in March 2020 has been extended post year-end to 31 January 2021. £2m of the overdraft facility expired on 1 July 2019, as tooling payments were received from customers, with the overdraft facility reduced by a further £5m, to £10m, in September 2019 due to the reduction in net debt as a result of the cash received from Wipac's customers for design and development programmes.

Under the bank facility agreement, the Group's bank holds security in the form of guarantees from certain Group companies and fixed and floating charges over the current assets of the Group's three main UK trading subsidiaries.

The two main covenants in the facility agreement are underlying interest cover and the ratio of net debt to underlying EBITDA. The interest cover covenant was met at 31 March 2019. The net debt covenant was deferred to July 2019 and has subsequently been waived as part of the facility extension but had the covenant been tested at 31 March 2019, net debt would have been 2.74 times proforma unaudited adjusted EBITDA (which is aligned to how the covenants will be tested going forwards) against the covenant of 2.75 times. As part of the extension of the revolving credit facility, two new covenants have been included from 30 September 2019 in relation to guarantor revenue and guarantor EBITDA and existing covenants have been reset in line with the updated forecasts.

Pensions

The deficit on the Group's pension scheme, which has been closed to future accrual, moved from a deficit of £29.8m at 31 March 2018 to a deficit of £49.1m at 31 March 2019. The movement resulted from an increase in liabilities as the AA corporate bond rate has fallen and longevity has increased as a result of an updated mortality study, as well as the requirement to account for guaranteed minimum pension ('GMP') benefit equalisation. This was partially offset by strong performance from our return-seeking assets and liability-driven investment.

In October 2018, the High Court handed down a judgement involving the Lloyds Banking Group's defined benefit pension schemes. The judgement concluded that pension schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The impact on the Group's scheme has been to increase liabilities by 1.68% or £3.6m which has been classified as an exceptional item in the income statement.

During 2019, the Group paid total contributions of £1.7m (2018: £1.9m), including scheme administration costs of £0.5m and £1.2m deficit recovery contributions.

The last triennial actuarial valuation as at 31 March 2015 showed the scheme to be 80.3% funded on a continuing basis.

The next triennial valuation as at 31 March 2018 was due to be finalised by 30 June 2019 but discussions regarding the assumptions and the level of contributions are still ongoing. A revised schedule of contributions has been agreed as follows:

2020: £2.0m including expenses

2021: £2.3m for 10 months to 31 January 2021, including expenses.

These are to be paid in monthly instalments. Contributions for the period after 31 January 2021 will be agreed as part of finalising the actuarial valuation.

Treasury

The Group faces currency exposure on its overseas subsidiaries and on its foreign currency transactions.

Each business hedges significant transactional exposure using forward foreign exchange contracts for any exposure over £20,000. The Group reports trading results of overseas subsidiaries based on average rates of exchange compared with sterling over the year. This income statement translation exposure is not hedged as this is an accounting rather than cash exposure and as a result the income statement is exposed to movements in the US dollar, Euro, Czech Koruna and Indian Rupee. Based on the 2019 results, a 10% increase in the value of sterling against these currencies would have increased reported loss before tax by £1.5m.

The Group is exposed to interest rate fluctuations and with net debt of £38.5m, a 1% movement in interest rates would impact the interest costs by £0.6m.

Dividend

Given the level of net debt, no dividend payment was made during the year and none is proposed. The Board intends to recommence dividend payments only when it becomes confident that a sustainable and regular dividend can be introduced.

Alternative Performance Measures

In the analysis of the Group's financial performance and position, operating results and cash flows, alternative performance measures are presented to provide readers with additional information. The principal measures presented are underlying measures of earnings including underlying operating profit, underlying profit before tax, underlying profit after tax, underlying EBITDA and underlying earnings per share.

The annual report includes both statutory and adjusted non-GAAP financial measures, the latter of which the Directors believe better reflect the underlying performance of the business and provides a more meaningful comparison of how the business is managed and measured on a day-to-day basis. The Group's alternative performance measures and KPIs are aligned to the Group's strategy and together are used to measure the performance of the business and form the basis of the performance measures for remuneration. Underlying results exclude certain items because if included, these items could distort the understanding of the performance for the year and the comparability between the periods. A reconciliation of the Group's non-GAAP financial measures is shown on page 53.

After the year end, the strategic decision was taken to exit from the mid volume automotive business. As part of this exit process, one-off price concessions totalling £7.1m were given on certain mid-volume contracts. An additional performance measure, "proforma unaudited adjusted profit" is given which is defined as profit before exceptional items and before the proforma unaudited exceptional price concession on exit from the mid-volume automotive business. The Directors believe that disclosure of this additional performance measure is useful to aid understanding of the performance of the business excluding this impact of the strategic decision taken to exit from this sector.

We provide comparatives alongside all current year figures. The terms 'underlying' and 'proforma unaudited adjusted' are not defined under IFRS and may not be comparable with similarly titled measures used by other companies.

All profit and earnings per share figures in this annual report relate to underlying business performance (as defined above) unless otherwise stated. A reconciliation of underlying measures to statutory measures is provided below:

	Statutory	**Exceptional items**	**Underlying**	**Unaudited proforma adjustment**	**Unaudited proforma adjusted**
CTP operating profit (£m)	6.5	0.3	6.8	-	6.8
LED Technologies operating (loss) / profit (£m)	(13.3)	9.4	(3.9)	7.1	3.2
Aerospace operating profit (£m)	1.3	-	1.3	-	1.3
Central costs (£m)	(7.1)	4.2	(2.9)	-	(2.9)
Group operating (loss) / profit (£m)	(12.6)	13.9	1.3	7.1	8.4
Other finance expense (£m)	(2.1)	-	(2.1)	-	(2.1)
Group (loss) / profit before taxation (£m)	(14.7)	13.9	(0.8)	7.1	6.3
Taxation (£m)	(4.0)	2.8	(1.2)	-	(1.2)
Group (loss) / profit for the year (£m)	(18.7)	16.7	(2.0)	7.1	5.1
Basic loss per share (pence)	(25.4)		(2.7)		7.0

The adjustments comprise:

£m	CTP	LED	Central	Total
Redundancies and restructuring costs	0.3		0.4	0.7
One-off costs in relation to Wipac operational issues		0.9		0.9
Board recruitment fees			0.2	0.2
Defined benefit pension scheme GMP equalisation			3.6	3.6
Impairment charge		8.5		8.5
	0.3	**9.4**	**4.2**	**13.9**
Proforma unaudited exceptional price concession		7.1		7.1
	0.3	**16.5**	**4.2**	**21.0**
Taxation (1)			2.8	2.8
	0.3	**16.5**	**7.0**	**23.8**

(1) The taxation adjustment comprises the write down in the UK deferred tax asset of £2.9m and (£0.1m) of other items.

Directors' review of the principal risks faced by the Group

The Board is responsible for determining the nature and extent of the risks it is willing to take in delivering the Group's strategy. The Board undertakes risk management to improve understanding of the actual and potential risks to our business as well as its resilience, performance, sustainability and success, to enable it to assess and respond to new opportunities as they arise and to provide fair and balanced information to shareholders and potential shareholders.

The Board has carried out an assessment of the principal risks facing Carclo plc, including those that would threaten its business model, future performance, solvency or liquidity. This report details these risks and explains how they are being managed or mitigated.

The Board is responsible for creating the framework for the Group's risk management to operate effectively. This risk management framework includes risk assessment, response, communication and governance. The Board is also responsible for ensuring that appropriate and proportionate resources are allocated to risk management activities.

When assessing risk, the Board considers both external (arising from the environment in which we operate) and internal factors (arising from the nature of our business and its internal controls and processes.)

Management takes ownership of the specific risks with the likely causes and effects recorded within the risk register. These are maintained and challenged at site level. The risks are scored based on likelihood and severity to enable the significant risks to be readily identified and the appropriateness of mitigations considered. The risk registers are reviewed, challenged and debated to keep them up to date and relevant to our strategy. Risks are escalated as appropriate.

During the year all the key risks identified by the sites were evaluated with the fifteen highest scoring risks reviewed in detail at the Finance & Risk Management Committee. This Committee then proposed the risks that it considered key to the running of the business for evaluation at the Main Board meeting.

The Board carried out a review of effectiveness which concluded that, whilst the risk management process had been in place during the year and was operating as documented, it had failed to highlight the risk factors that led to the significant operational and financing issues in the LED Technologies Division.

The effectiveness of the process is under review. A standing risk schedule will now be included in the Board meeting papers which details the key risks currently identified alongside their mitigations and status of actions. This also includes emerging risks as identified at Group Steering Committee, Finance & Risk Management Committee and Board meetings and instances of incurred losses against identified risks to enable assessment of the appropriateness of the mitigations.

The efficiency and effectiveness of existing internal controls will continually be challenged to improve the risk management framework.

The responsibilities of the Audit Committee are explained in the Annual Report and Accounts. These responsibilities include the reviewing of the Group's risk management systems. These are primarily designed to mitigate risk down to an acceptable level, rather than completely eliminate the risk, and the review can provide only reasonable and not absolute assurance of effective operation, compliance with laws and regulations and against material misstatement or loss.

The Group's management is responsible for the identification, assessment, management and monitoring of risk and for developing, operating and monitoring the system of internal control. The Audit Committee receives reports from management on the effectiveness of those systems it has established.

Listed below are the most significant risks that may affect our business, although there are other risks that may occur and impact the Group's performance.

Funding and banking covenants

Medium term committed bank facilities have been agreed which include a number of financial covenants which are normal for facilities of this type. The facilities were due for renewal in March 2020 but have been extended to 31 January 2021.

The net debt to EBITDA covenant test due on 31 March 2019 was deferred by the bank to July 2019, but had it been tested, the ratio would have been 2.74x compared with the required 2.75x. The covenant tests for the period after the year-end have been renegotiated with the bank as part of the facility extension and are expected to be met, although with limited headroom.

The Group also had a UK overdraft facility of £17m of which £13.7m was drawn at the year-end. This facility reduced to £15m in July 2019 and to £10m in September 2019 as tooling receipts were collected from customers. This, by its nature, can be withdrawn at any time and whilst HSBC has indicated their continued support, further discussion of the risk of funding withdrawal is given in the Directors' Report.

Operational execution risk

Poor operational performance could lead to increased costs, reduction in margins, late deliveries and customer service issues, putting pressure on results and cash flows. Good progress has been made in the Technical Plastics Division with management changes and a focus on operational excellence and cash generation having an impact. The Wipac operational improvement measures implemented after the year end have also started to have some limited effect, although Wipac still remains reliant on customer support for its funding needs.

Along with the strengthened management team, improved operational KPIs have now been put in place in CTP which enable better monitoring and early identification of potential issues.

Reliance on major customers

The proportion of revenues generated from the top five customers in the year was 47.3% (2018 - 48.3%). One medical customer accounted for 17.2% of revenues (2018 - 17.6%) and one supercar customer accounted for 13.1% of revenues (2018 - 16.2%). No other customer accounted for more than 10.0% of revenues in the year or prior year. Following any disposal of Wipac, the significance of the medical customer will increase.

Our policy has been to focus on major customers who are blue-chip multi-nationals operating in the medical, electronics, automotive and aerospace markets. Focusing on these key customers brings significant opportunities to develop in low cost regions and enhance the customers' products through our own technologies.

The position of having a small customer base can be attributed to a number of factors, including efforts being concentrated on gaining and building relationships with major companies. Globalisation and customer acquisition policy has also meant that across the Group we are increasingly dealing with different trading arms of the same global entity. We have made acquisitions in recent years to assist in expanding our major customer base.

One risk of relying on a small customer base is the potential impact to the Group of losing either current or future business as a result of our underperformance. We aim to mitigate this risk by a focus on customer service and operational performance.

There does remain an associated risk in the potential loss of such customers either through competitive pressures, relocation or insolvency. Such risks are mitigated through being able to offer world-class quality and costs, flexibility in manufacturing location and, in the case of insolvency, through the application of credit insurance across the Group.

The level of bad debts experienced in the year under review, and the prior year, were negligible.

Reliance on major projects

Carclo is reliant on the timing of and completion of longer-term tooling and manufacturing contracts as awarded by our customers. Whilst Carclo has a strong track record of securing these contracts - delays can affect the timing of profit recognition (in respect of which financial year it relates to) and related cashflows. In the automotive business, higher volume customers typically pay for the cost of design and development work over the initial production schedules, giving rise to a significant investment in working capital. This risk would decrease significantly following any disposal of Wipac.

We attempt to mitigate these risks by working closely with our customers and suppliers, and also by growing the percentage of product sales as a proportion of total sales, enabling us to place less reliance on tooling programmes.

Management bandwidth

From January to September 2019, the Group was operating without a permanent Chief Executive, with the Chairman, Mark Rollins, acting as an Executive Chairman and the Group Finance Director, Sarah Matthews-DeMers taking on the remaining tasks. To supplement the resource and experience available, in May 2019 the Group appointed a Chief Restructuring Officer, Antony Collins, who has now been appointed as the interim Group Chief Executive and joined the Board with effect from 1 October 2019. As announced on 25 September 2019, following the resignation of Sarah Matthews-DeMers, Ed Watkinson has been appointed Group Finance Officer Designate. The Group is also supported by its advisers.

Pensions

Carclo's UK defined benefit pension scheme is mature and is large compared with the size of Carclo. The scheme is backed by substantial assets amounting to £166.3m at 31 March 2019 (2018 - £170.1m).

The triennial actuarial pension valuation as at 31 March 2018 is now overdue, with the recent challenges faced by the Group as a result of the ongoing operational problems at Wipac, likely to lead to the pension trustees adopting a more conservative set of future actuarial assumptions. The pension deficit, and hence the required annual deficit recovery payments are therefore expected to increase once the valuation is finalised. Whilst the current expectation, through discussions with the Pension Trustee, is that the Group will be able to fund these increased contributions, their level has not yet been finalised and the risk therefore remains that the contributions might be in excess of the Group's funding capacity. An agreement has been received with the trustees to limit the contributions until January 2021 at £225,000 per month, including expenses.

Agreement of an affordable schedule of contributions for the period after January 2021 is critical to the Group's ability to continue to operate within its available bank facilities.

Small adjustments to the assumptions used to calculate the pension liability, or significant swings in bond yields or stock markets, can have a large impact in absolute terms on the net assets of the Company and Group. A decrease in the discount rate by 0.25% per annum (i.e. 2.40% to 2.15%) would increase the scheme liabilities by 3.60% i.e. £7.8m. An increase in the rate of inflation by 0.25% per annum (i.e. 2.20% to 2.45%) would increase the scheme liabilities by 2.00% i.e. £4.3m. An increase in life expectancy of 1 year would increase the scheme liabilities by 3.8% i.e. £8.2m.

The impact of the pension deficit on the level of distributable reserves is monitored on an on-going basis. Monitoring improves planning for any potential adverse swings and helps the Group to assess the likely impact on distributable reserves. The development of an investment strategy that seeks to mitigate risk (utilising diversified growth funds and liability driven investments) has restricted volatility to some degree.

In addition, the Group and the trustees continue to explore liability management possibilities (including Enhanced Transfer Values) with assistance from our advisers. These are designed to allow certain members to leave the scheme which reduces the uncertainty for the Group.

In addition, the Group has in recent years offered eligible pensioners the option to switch from a pension with indexed linked pension increases to a higher fixed pension with no future increases.

Further details can be found in note 22 of the report and accounts.

Global economy

It is inevitable that for a global entity such as Carclo international events outside of our control will leave us potentially exposed to volatility and insecurity both in respect of our own business and the customers served by the Group and this raises the risk profile for all businesses.

Carclo has high operational gearing and a large risk currently faced by the Group remains a sharp reduction in demand should global economic output reduce. Carclo serves a number of markets, such as medical and supercar markets, which have remained mostly detached from general consumer activity and as such have, to date, been comparatively unaffected by the uncertainty in global demand. However, should these markets be impacted then Carclo has a proven track record of acting swiftly to rebalance the supply base with demand.

Growth is inevitably impacted by a number of factors outside our control, such as the impact of the oil price on the energy market and the volatility in markets. Our focus on major blue-chip multinationals together with appropriate contingency planning, helps to mitigate the impact on the business of such changes and events.

Political uncertainty including 'Brexit'

Political uncertainty such as the impact of Brexit and other overseas trade issues such as US trade tariffs can naturally affect decisions by our customers to invest and therefore impact on our trading.

We have a central team in place to review and assess the impact as more information becomes available and we are engaging with trade associations which are in contact with government.

Whilst we continue to monitor and review competitive intelligence, we continue to focus on cost efficiency opportunities and on further differentiating our business by developing new growth plans and developing our ability to provide a stronger product for our customers.

Ultimately Carclo will be able to continue to trade with member states and the Group will take guidance on any new trading regulations when the UK exits the European Union. As the Group operates in some countries which are outside of Europe and the EU this should help lessen any impact or disruption caused by an exit. In addition, approximately two thirds of Carclo's UK based businesses' revenues are derived from the UK, which further lessens the impact of the risk.

Discussions have been held with a number of customers in relation to stock builds in advance of Brexit and impact on the supply chain. Plans are also being discussed to supply some of the UK entity's European customers from our plant in the Czech Republic.

IT security breach / system failures

Hacking and data security are an increasing concern for businesses. In Carclo's case it being a listed company, introduces real risk. We trust our IT systems to process a significant number of transactions each day. These systems contain highly confidential information about our customers, employees and shareholders. Breaches of IT security may result in unauthorised access to or loss of confidential information.

An IT security breach may lead to loss of business, reputational damage, litigation and regulatory investigation and penalties.

A breakdown or system failure may lead to major disruption for the businesses within the Group especially if network access is lost. The impact could have significant operational and financial ramifications if connection is unable to be restored quickly.

Carclo uses a security password protected firewall to help minimise the risk of fraudsters hacking into the system and maintains up to date antivirus solutions. In addition, IT management perform regular risk reviews to help keep data secure. In an ever-changing environment this serves to protect the information that we are entrusted with.

The business has a defined Disaster Recovery ("DR") procedure assisted by a third-party support company. DR tests are performed annually, and a successful test was performed in February 2019. As part of a rolling programme for IT improvements, a proof of concept solution is being built that will reduce our dependency on tape backups and improve response time should a DR event occur. Once proven this solution will replace the requirement for the third-party support company and shorten a DR events downtime. The same DR solution will improve business continuity for the finance system. Working with our communications partners we are replacing our MPLS network over the coming year to improve network resilience and increase network bandwidth.

Going concern and post balance sheet events

Going concern

Net debt at 31 March 2019 was £38.5m, increasing from £31.5m at 31 March 2018. The increase was driven by capital investment and the profile of cash receipts from customers for ongoing design, development and tooling programmes and by the significant increase in production volumes in the LED Technologies division which absorbed working capital.

After the year end, net debt levels improved following the decision to exit three mid-volume programmes at Wipac as monies were received from customers in respect of the work done on the design, development and tooling for these programmes. By the end of August 2019, net debt, prepared on the same basis as at 31 March 2019, had fallen to £26.2m.

The Directors have prepared base and sensitised cash flow forecasts for a period in excess of eighteen months from the date of their approval of these financial statements. The Directors have also considered the debt facilities available to the Group which are disclosed in note 20 to the full financial statements and comprise an overdraft of £15m and a £30m revolving credit facility maturing in January 2021, a period of fifteen months from the date of this report. The revolving credit facility, which at October 2019 is fully drawn, was due to mature in March 2020 but the term has been extended to January 2021. The overdraft facility was reduced to £10m at the end of September 2019, with headroom forecast to be at a sufficient level after this reduction in facility.

The net debt to underlying EBITDA banking covenant test at 31 March 2019 was deferred by the bank in advance of the year end. Had the covenant been tested net debt would have been 2.74 times proforma unaudited adjusted EBITDA (which is aligned to how the covenants will be tested going forwards) against a covenant of 2.75 times. Under the base case, the Group's financing is forecast to remain within the available facilities and covenants for at least the twelve-month forecast period.

The Board has considered two scenarios: a disposal of Wipac and retention of the business whilst the current level of significant customer support remains.

There are a number of uncertainties in relation to a disposal in relation to disposal proceeds and timing. In the event a disposal is not achieved the Board will pursue alternative options to protect the Group from the ongoing underlying losses of Wipac.

Whilst the business is retained, there are a number of assumptions that have been made in the forecast including:

- Wipac customer support
  Continued operation of Wipac depends on significant support from customers in the form of price surcharges and contributions towards tooling improvements and other operational improvement programmes. It also involves customers bearing their own emergency freight charges. All customers have signed up to this plan, although this is subject to review on a weekly basis and should any support be withdrawn, or should any customers choose to take production contracts elsewhere, this will have a material impact on Wipac's ability to continue in operation.
- No contingent liabilities, including warranty claims, giving rise to a material cash outflow

  No significant claims for exiting from the mid-volume programmes or in relation to the operational issues have been received. In addition, remaining customers have agreed not to charge any penalties or admin fees for missed or short deliveries. However, were this situation to change in the future, a contingent liability or claim could arise giving rise to a material cash outflow that could not be met in the normal course of business.
- Continued bank support

  The base case forecasts and bank covenants have been prepared on the basis that Wipac is disposed of. Should Wipac not be disposed of by the end of October, the bank facility agreement states that the covenants will need to be renegotiated by the end of November. Our base case cash flow forecasts assume a positive impact on the Group's financing position from the disposal process by March 2020. If this were not the case, and in the absence of significant cash inflows from any alternative options, it is likely that the 31 March 2020 covenant would be breached and would need to be renegotiated.

Other assumptions in relation to the remainder of the Group include:

- Suppliers continuing to offer normal commercial credit terms
  Certain credit insurers have removed cover on the Group. To date this has not had a material impact on the cash flows. The cash forecast assumes that suppliers continue to offer normal commercial credit terms. Any move to acceleration of supplier payments could impact on cash requirements.
- Customers paying invoices to terms
  Any significant delay in receiving payment could impact on headroom.
- Ongoing trading performance
  The CTP Division has won a number of new sales programmes which are due to start in the current financial year. Any delay in commencement or in the ramp up of forecast volumes or failure to deliver revenue and margin growth could reduce headroom, as could any material trading underperformance in the remaining businesses or loss of existing customers.
- Capital investment projects completing on time and on budget

  The CTP Division has won a number of new sales programmes which require capital investment. If this investment is not completed on time and on budget, there could be further cash requirements
- Lenders continuing to offer the facilities described above
  £30m of the bank funding relates to a committed facility in place until 31 January 2021. The remainder is an overdraft that is repayable on demand that has been reduced to £10m in September 2019. The base case cash flow forecasts and hence the going concern assessment have been prepared on the basis that the bank continues to extend a sufficient overdraft facility for the period to January 2021.
- Bank permission is required for the disposal of Wipac.

  Wipac is a guarantor of the Group bank facility and following disposal, the Group is reliant on the support of the bank to waive these cross-guarantees. Whilst the bank has indicated its support, there is no guarantee that this waiver will be granted.

Financial sensitivity modelling was carried out which assessed the impact of the risks noted above both individually and in aggregate on both headroom and bank covenants.

The Board concluded that in the event of any of these individual risks occurring and having a material impact on the forecasts, the Group would require the support of its lenders by way of additional overdraft facility or covenant waiver / deferral.

Based on their assessment, the Directors consider that there is a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and that it may therefore be unable to realise its assets and discharge its liabilities in the normal course of business. However, subject to the successful disposal of the Wipac business in the near-term or, in the absence of this, to appropriate actions being taken to protect the Group from Wipac's underlying losses and subject to the ongoing support of the Group's lending bank, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its financial statements.

Post balance sheet events

Following the year end, an announcement was made on 11 June 2019 regarding a change in strategic focus for Wipac, to exit from mid-volume contracts and refocus on low volume work.

A further announcement was made on 4 July 2019 that the Group has received a number of approaches from parties interested in the potential acquisition of Wipac, the main operating business in the Group's LED Technologies division. The Group has marketed the business and it is expected that a sale will be completed within the next year; the Wipac business is therefore classified as held for sale subsequent to the balance sheet date and no adjustments have been made to the financial statements in respect of this.

On 25 July 2019 the existing bank facilities were extended from 30 March 2020 to 31 January 2021. An agreement was also reached with the Pension Trustee regarding the level of contributions for the same period.

In September 2019, following receipt of payments for significant Wipac design and development programmes, the bank overdraft facility was reduced to £10m, leaving total facilities at £40m.

Glossary

COMPOUND ANNUAL GROWTH RATE ("CAGR")	The geometric progression ratio that provides a constant rate of return over a time period
CONSTANT CURRENCY	Retranslated at the prior year's average exchange rate. Included to explain the effect of changing exchange rates during volatile times to assist the reader's understanding
GROUP CAPITAL EXPENDITURE	Fixed asset additions
NET BANK INTEREST	Interest receivable on cash at bank less interest payable on bank loans and overdrafts. Reported in this manner due to the global nature of the Group and its banking agreements
NET DEBT	Cash and cash deposits less current and non-current interest-bearing loans, borrowings and finance leases. Used to report the overall financial debt of the Group in a manner that is easy to understand
OPERATIONAL GEARING	Ratio of fixed overheads to sales
UNDERLYING	Adjusted to exclude all exceptional items (exceptional items in this definition does not include the proforma unaudited exceptional price concession)
UNDERLYING EBITDA	Profit before interest tax, depreciation, amortisation adjusted to exclude all exceptional items (exceptional items in this definition does not include the proforma unaudited exceptional price concession)
UNDERLYING EARNINGS PER SHARE	Earnings per share adjusted to exclude all exceptional items (exceptional items in this definition does not include the proforma unaudited exceptional price concession)
UNDERLYING OPERATING PROFIT	Operating profit adjusted to exclude all exceptional items (exceptional items in this definition does not include the proforma unaudited exceptional price concession)
UNDERLYING PROFIT BEFORE TAX	Profit before tax adjusted to exclude all exceptional items (exceptional items in this definition does not include the proforma unaudited exceptional price concession)
PROFORMA ADJUSTED	Adjusted to exclude all exceptional items and the proforma unaudited exceptional price concession on exit of mid-volume automotive business
PROFORMA ADJUSTED EBITDA	Profit before interest tax, depreciation, amortisation adjusted to exclude all exceptional items and the proforma unaudited exceptional price concession on exit of mid-volume automotive business
PROFORMA ADJUSTED EARNINGS PER SHARE	Earnings per share adjusted to exclude all exceptional items and the proforma unaudited exceptional price concession on exit of mid-volume automotive business
PROFORMA ADJUSTED OPERATING PROFIT	Operating profit adjusted to exclude all exceptional items and the proforma unaudited exceptional price concession on exit of mid-volume automotive business
PROFORMA ADJUSTED PROFIT BEFORE TAX	Profit before tax adjusted to exclude all exceptional items and the proforma unaudited exceptional price concession on exit of mid-volume automotive business

Consolidated income statement

year ended 31 March

	Notes	2019 £000	2018 * £000
Revenue	3	**144,851**	146,214
Statutory operating (loss) / profit	3	**(12,593)**	9,907
Finance revenue		**58**	99
Finance expense		**(2,119)**	(1,839)
(Loss) / profit before tax		**(14,654)**	8,167
Income tax (expense) / credit	6	**(3,978)**	325
(Loss) / profit after tax		**(18,632)**	8,492
Attributable to -			
Equity holders of the parent		**(18,632)**	8,492
		(18,632)	8,492

The above results were derived from continuing operations.

	Notes	2019	2018
(Loss) / earnings per ordinary share	7		
Basic		**(25.4) p**	11.6 p
Diluted		**(25.4) p**	11.6 p

* The group has initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See note 4.

Alternative Performance Measures - Underlying operating profit and proforma unaudited adjusted operating profit

		2019 £000	2018 £000
Statutory operating (loss) / profit		**(12,593)**	9,907
Exceptional items			
Rationalisation and restructuring costs	5	**1,935**	556
Compensation for loss of office	5	-	265
Charge in respect of retirement benefits	5,9	**3,559**	-
Impairment review of LED Technologies	5	**8,480**	-
Other**	5	**(66)**	83
Underlying operating profit		**1,315**	10,811
Proforma unaudited adjustment - Exceptional price concession on exit of mid-volume automotive business	5	**7,104**	-
Proforma unaudited adjusted operating profit		**8,419**	10,811

**Other items comprise litigation costs, costs associated with proposed offer, impairment of CIT and profit on disposal of surplus properties

Consolidated statement of comprehensive income

year ended 31 March

	2019 £000	2018 £000
(Loss) / profit for the year	**(18,632)**	8,492
Other comprehensive (expense) / income -		
Items that will not be reclassified to the income statement		
Remeasurement (losses) / gains on defined benefit scheme	**(16,293)**	2,150
Deferred tax arising	**(5,260)**	(392)
Total items that will not be reclassified to the income statement	**(21,553)**	1,758
Items that are or may in future be classified to the income statement		
Foreign exchange translation differences	**1,260**	(2,943)

Net investment hedge	**(425)**	705
Deferred tax arising	**(61)**	138
Total items that are or may in future be classified to the income statement	**774**	(2,100)
Other comprehensive (expense), net of tax	**(20,779)**	(342)
Total comprehensive (expense) / income for the year	**(39,411)**	8,150
Attributable to -		
Equity holders of the parent	**(39,411)**	8,150
Non-controlling interests		
Total comprehensive (expense) / income for the period	**(39,411)**	8,150

Consolidated statement of financial position

as at 31 March

	Notes	2019 £000	2018 £000 *
Assets			
Intangible assets		**24,144**	25,311
Property, plant and equipment		**42,495**	46,446
Investments		**7**	7
Deferred tax assets		**442**	8,731
Trade and other receivables		**126**	143
Total non current assets		**67,214**	80,638
Inventories		**19,657**	19,812
Contract assets	4	**20,264**	-
Trade and other receivables		**32,101**	46,449
Cash and cash deposits		**10,330**	12,962
Non current assets classified as held for sale		**-**	200
Total current assets		**82,352**	79,423
Total assets		**149,566**	160,061
Liabilities			
Interest bearing loans and borrowings		**1,048**	29,253
Deferred tax liabilities		**4,051**	4,070
Provisions		**-**	323
Trade and other payables		**132**	208
Retirement benefit obligations	9	**49,121**	29,798
Total non current liabilities		**54,352**	63,652
Trade and other payables		**31,444**	28,313
Current tax liabilities		**867**	731
Contract liabilities	4	**2,540**	-
Provisions		**333**	161
Interest bearing loans and borrowings		**47,763**	15,185
Total current liabilities		**82,947**	44,390
Total liabilities		**137,299**	108,042
Net assets		**12,267**	52,019
Equity			
Ordinary share capital issued	10	**3,671**	3,664
Share premium		**7,359**	7,359
Translation reserve		**7,008**	6,234
Retained earnings		**(5,745)**	34,788
Total equity attributable to equity holders of the parent		**12,293**	52,045
Non-controlling interests		**(26)**	(26)
Total equity		**12,267**	52,019

* The group has initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See note 4.

Approved by the board of directors and signed on its behalf by -

Mark Rollins } directors
Peter Slabbert

31 October 2019

Consolidated statement of changes in equity

	Attributable to equity holders of the company						
	Share capital £000	Share premium £000	Translation reserve £000	Retained earnings £000	Total £000	Non-controlling interests £000	Total equity £000
Balance at 1 April 2017*	3,650	7,359	8,334	24,946	44,289	(26)	44,263
Profit for the year	-	-	-	8,492	8,492	-	8,492
Other comprehensive income / (loss) -							
Foreign exchange translation differences	-	-	(2,943)	-	(2,943)	-	(2,943)
Net investment hedge	-	-	705	-	705	-	705
Remeasurement gains on defined benefit scheme	-	-	-	2,150	2,150	-	2,150
Taxation on items above	-	-	138	(392)	(254)	-	(254)
Total comprehensive income / (loss) for the period -		-	(2,100)	10,250	8,150	-	8,150
Transactions with owners recorded directly in equity -							
Share based payments	-	-	-	(40)	(40)	-	(40)
Exercise of share options	14	-	-	(262)	(248)	-	(248)
Issue of share capital, net of costs	-	-	-	-	-	-	-
Dividends to shareholders	-	-	-	-	-	-	-
Taxation on items recorded directly in equity	-	-	-	(106)	(106)	-	(106)
Balance at 31 March 2018*	3,664	7,359	6,234	34,788	52,045	(26)	52,019
Balance at 1 April 2018, as previously reported	**3,664**	**7,359**	**6,234**	**34,788**	**52,045**	**(26)**	**52,019**
Adjustment on initial application of IFRS 15, net of tax.*	-	**-**	**-**	**(69)**	**(69)**	**-**	**(69)**
Adjusted balance at 1 April 2018	**3,664**	**7,359**	**6,234**	**34,719**	**51,976**	**(26)**	**51,950**
Loss for the year	**-**	**-**	**-**	**(18,632)**	**(18,632)**	**-**	**(18,632)**
Other comprehensive income / (loss) -	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Foreign exchange translation differences	**-**	**-**	**1,260**	**-**	**1,260**	**-**	**1,260**
Net investment hedge	**-**	**-**	**(425)**	**-**	**(425)**	**-**	**(425)**
Remeasurement losses on defined benefit scheme	**-**	**-**	**-**	**(16,293)**	**(16,293)**	**-**	**(16,293)**
Taxation on items above	**-**	**-**	**(61)**	**(5,260)**	**(5,321)**	**-**	**(5,321)**
Total comprehensive income / (loss) for the period -		**-**	**774**	**(40,185)**	**(39,411)**	**-**	**(39,411)**
Transactions with owners recorded directly in equity -							
Share based payments	**-**	**-**	**-**	**36**	**36**	**-**	**36**
Exercise of share options	**7**	**-**	**-**	**(97)**	**(90)**	**-**	**(90)**
Taxation on items recorded directly in equity	**-**	**-**	**-**	**(218)**	**(218)**	**-**	**(218)**
Balance at 31 March 2019	**3,671**	**7,359**	**7,008**	**(5,745)**	**12,293**	**(26)**	**12,267**

* The group has initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See note 4.

Consolidated statement of cash flows
year ended 31 March

	Notes	**2019** **£000**	2018 £000
Cash generated from operations	*11*	**4,145**	6,257
Interest paid		**(1,202)**	(1,016)
Tax paid		**(1,107)**	(1,693)
Net cash from operating activities		**1,836**	3,548

Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	**333**	48
Interest received	**58**	99
Acquisition of property, plant and equipment	**(6,897)**	(8,773)
Acquisition of intangible assets - computer software	**(87)**	(350)
Net cash from investing activities	**(6,593)**	(8,976)
Cash flows from financing activities		
Drawings on term loan facilities	**215**	750
New loans	**26**	-
Cash outflow in respect of performance share plan awards	**(52)**	(248)
Repayment of finance leases	**(453)**	-
Net cash from financing activities	**(264)**	502
Net decrease in cash and cash equivalents	**(5,021)**	(4,926)
Cash and cash equivalents at beginning of period	**(2,223)**	3,381
Effect of exchange rate fluctuations on cash held	**206**	(678)
Cash and cash equivalents at end of period	**(7,038)**	(2,223)
Cash and cash equivalents comprise -		
Cash and cash deposits	**10,330**	12,962
Bank overdrafts	**(17,368)**	(15,185)
	(7,038)	(2,223)

Notes on the Accounts

1. Notes on the preliminary statement

Basis of preparation

Whilst the financial information included in this preliminary statement has been prepared on the basis of the requirements of IFRSs in issue, as adopted by the European Union and effective at 31 March 2019, this statement does not itself contain sufficient information to comply with IFRS. The Group expects to publish full consolidated financial statements on 31 October 2019.

The financial information set out above does not constitute the company's statutory accounts for the years ended 31 March 2019 or 2018 but is derived from those accounts. Statutory accounts for 2018 have been delivered to the registrar of companies, and those for 2019 will be delivered in due course. The auditor has reported on those accounts. Their report for 2019 was (i) unqualified, (ii) contains a material uncertainty in respect of going concern to which the auditor drew attention by way of emphasis without modifying their report and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006. Their report for the accounts of 2018 was (i) unqualified, (ii) did not include a reference of any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

The financial statements are prepared on the going concern basis.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Operating Review. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Finance Review. In addition the annual report and accounts includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

Net debt at 31 March 2019, excluding operating leases, was £38.5m, increasing from £31.5m at 31 March 2018. The increase was driven by capital investment and the profile of cash receipts from customers for ongoing design, development and tooling programmes and by the significant increase in production volumes in the LED Technologies division which absorbed working capital.

After the year end, net debt levels improved following the decision to exit three mid-volume programmes at Wipac as monies were received from customers in respect of the work done on the design, development and tooling for these programmes. By the end of August 2019, net debt, excluding operating leases, had fallen to £26.2m.

The Directors have prepared base and sensitised cash flow forecasts for a period in excess of eighteen months from the date of their approval of these financial statements. The Directors have also considered the debt facilities available to the Group which are disclosed in note 20 to the financial statements and comprise an overdraft of £15m and a £30m revolving credit facility maturing in January 2021, a period of sixteen months from the date of this report. The revolving credit facility, which at October 2019 is fully drawn, was due to mature in March 2020 but the term has been extended to January 2021. The overdraft facility was reduced to £10m at the end of September 2019, with headroom forecast to be at sufficient levels after this reduction in facility.

The net debt to underlying EBITDA banking covenant test at 31 March 2019 was deferred by the bank in advance of the year end. Had the covenant been tested net debt would have been 2.74 times proforma unaudited adjusted EBITDA against a covenant of 2.75 times. Under the base case, the Group's financing is forecast to remain within the available facilities and covenants for at least the twelve-month forecast period.

The Board has considered two scenarios: a disposal of Wipac and retention of the business whilst the current level of significant customer

support remains.

There are a number of uncertainties in relation to a disposal in relation to disposal proceeds and timing. In the event a disposal is not achieved the Board will pursue alternative options to protect the Group from the ongoing underlying losses of Wipac.

Whilst the business is retained, there are a number of assumptions that have been made in the forecast including:

Wipac customer support

Continued operation of Wipac depends on significant support from customers in the form of price surcharges and contributions towards tooling improvements and other operational improvement programmes. It also involves customers bearing their own emergency freight charges. All customers have signed up to this plan, although this is subject to review on a weekly basis and should any support be withdrawn, or should any customers choose to take production contracts elsewhere, this will have a material impact on Wipac's ability to continue in operation.

No contingent liabilities, including warranty claims, giving rise to a material cash outflow

No significant claims for exiting from the mid-volume programmes or in relation to the operational issues have been received. In addition, remaining customers have agreed not to charge any penalties or admin fees for missed or short deliveries. However, were this situation to change in the future, a contingent liability or claim could arise giving rise to a material cash outflow that could not be met in the normal course of business.

Continued bank support

The base case forecasts and bank covenants have been prepared on the basis that Wipac is disposed of. Should Wipac not be disposed of by the end of October, the bank facility agreement states that the covenants will need to be renegotiated by the end of November. Our base case cash flow forecasts assume a receipt of cash from the disposal process by March 2020. If this were not the case, and in the absence of significant cash from any alternative options, it is likely that the 31 March 2020 covenant would be breached and would need to be renegotiated.

Other assumptions in relation to the remainder of the Group include:

Suppliers continuing to offer normal commercial credit terms

Certain credit insurers have removed cover on the Group. To date this has not had a material impact on the cash flows. The cash forecast assumes that suppliers continue to offer normal commercial credit terms. Any move to acceleration of supplier payments could impact on cash requirements.

Customers paying invoices to terms

Any significant delay in receiving payment could impact on headroom.

Ongoing trading performance

The Technical Plastics Division has won a number of new sales programmes which are due to start in the current financial year. Any delay in commencement or in the ramp up of forecast volumes or failure to deliver revenue and margin growth could reduce headroom, as could any material trading underperformance in the remaining businesses or loss of existing customers.

Capital investment projects completing on time and on budget

The Technical Plastics Division has won a number of new sales programmes which require capital investment. If this investment is not completed on time and on budget, there could be further cash requirements.

Lenders continuing to offer the facilities described above.

£30m of the bank funding relates to a committed facility in place until 31 January 2021. The remainder is an overdraft that is repayable on demand that has been reduced to £10m in September 2019. The base case cash flow forecasts and hence the going concern assessment have been prepared on the basis that the bank continues to extend a sufficient overdraft facility for the period to January 2021.

Bank permission is required for the disposal of Wipac. Wipac is a guarantor of the Group bank facility and following disposal, the Group is reliant on the support of the bank to waive these cross-guarantees. Whilst the bank has indicated its support, there is no guarantee that this waiver will be granted.

Financial sensitivity modelling was carried out which assessed the impact of the risks noted above both individually and in aggregate on both headroom and bank covenants.

The Board concluded that in the event of any of these individual risks occurring and having a material impact on the forecasts, the Group would require the support of its lenders by way of additional overdraft facility or covenant waiver / deferral.

Based on their assessment, the Directors consider that there is a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and that it may therefore be unable to realise its assets and discharge its liabilities in the normal course of business. However, subject to the successful disposal of the Wipac business in the near-term or, in the absence of this, to appropriate actions being taken to protect the Group from Wipac's underlying losses and subject to the ongoing support of the Group's lending bank, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its financial statements.

Directors' liability

Neither the Company nor the directors accept any liability to any person in relation to this report except to the extent that such liability could arise under English law. Accordingly, any liability to a person who has demonstrated reliance on any untrue or mistaken statement or omission shall be determined in accordance with section 90(A) of the Financial Services and Markets Act 2000.

Responsibility statement of the directors in respect of the annual report

The directors at the date of this statement confirm that to the best of their knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the strategic report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

2. Accounting policies

The accounting policies have been applied consistently to all periods presented in the consolidated financial statements, unless otherwise stated.

Judgements made by the Directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in the Annual Report and Accounts.

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting period beginning on or after 1 April 2018. The following new standards and amendments to standards are mandatory and have been adopted for the first time for the financial year beginning 1 April 2018:

IFRS 9 Financial Instruments (effective date 1 January 2018).

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities, and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The adoption of IFRS 9 Financial Instruments from 1 April 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements, however the overall impact on the financial statements is not material. In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated.

IFRS 15 Revenue from Contracts with Customers (effective date 1 January 2018).

IFRS 15 'Revenue from Contracts with Customers' and the related 'Clarifications to IFRS 15 Revenue from Contracts with Customers' (hereinafter referred to as 'IFRS 15') replace IAS 18 'Revenue', IAS 11 'Construction Contracts', and several revenue-related Interpretations. The new Standard has been applied retrospectively without restatement, with the cumulative effect of initial application recognised as an adjustment to the opening balance of retained earnings at 1 April 2018. In accordance with the transition guidance, IFRS 15 has only been applied to contracts that are incomplete as at 1 April 2018. Further details including the impact of this standard on the Consolidated Financial Statements can be found in note 4.

Annual Improvements to IFRS Standards 2014-2016 Cycle (Amendments to IFRS 1 and IAS 28) (effective date 1 January 2018);

IFRIC 22 Foreign Currency Transactions and Advance Consideration (effective date 1 January 2018);

Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions (effective date 1 January 2018); and

Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective date 1 January 2018).

These standards have not had a material impact on the Consolidated Financial Statements unless indicated.

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting period beginning on or after 1 April 2019. The Group has elected not to adopt early these standards which are described below.

IFRS 16 Leases (effective date 1 January 2019). This new standard will impact the recognition, measurement and disclosure of operating leases.

The impact of IFRS 16 Leases is currently being assessed. Under IFRS 16 Leases, lessees will be required to apply a single model to recognise a lease liability and asset for all leases, including those classified as operating leases under current accounting standards, unless the underlying asset has a low value or the lease term is 12 months or less. The adoption of IFRS 16 will have a significant impact on the results as each lease will give rise to a right of use asset which will be depreciated on a straight-line basis, and a lease liability with a related interest charge. The depreciation and interest will replace the operating lease payments currently recognised as an expense. The impact will depend on the transition approach and the contracts in effect at the time of the adoption.

On the date of transition to IFRS 16, 1 April 2019, it is expected that right-of-use leased assets and lease liabilities will be recognised on the Consolidated Statement of Financial Position with equal and opposite values expected to be within the range £6.5 million to £9.5 million. In the year to 31 March 2020 it is anticipated that the adoption of IFRS 16 will have the impact on the consolidated income statement of increasing depreciation costs by £1.5 million to £2.3 million, increasing finance costs by £0.2 million to £0.3 million and reducing operating lease costs by £1.6 million to £2.3 million.

The above are not expected to have a material impact on the financial statements unless indicated.

There are no other IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

3. Segment reporting

The Group is organised into three, separately managed, business segments - Technical Plastics, LED Technologies and Aerospace. These are the segments for which summarised management information is presented to the Group's chief operating decision maker (comprising the main Board and Group Steering Committee).

The Technical Plastics segment supplies fine tolerance, injection moulded plastic components, which are used in medical, optical and electronics products. This business operates internationally in a fast growing and dynamic market underpinned by rapid technological development.

The LED Technologies segment develops innovative solutions in LED lighting, and is a leader in the development of high power LED lighting for the premium automotive industry.

The Aerospace segment supplies systems to the manufacturing and aerospace industries.

Transfer pricing between business segments is set on an arm's length basis. Segmental revenues and results include transfers between business segments. Those transfers are eliminated on consolidation.

The Group's geographical segments are based on the location of the Group's assets. Sales to external customers disclosed in geographical segments are based on the geographical location of its customers.

Analysis by business segment

The segment results for the year ended 31 March 2019 were as follows -

	Technical Plastics £000	LED Technologies £000	Aerospace £000	Unallocated £000	Eliminations £000	Group total £000
Consolidated income statement						
Total revenue	93,506	47,479	6,720	-	(2,854)	144,851
Less inter-segment revenue	(2,663)	(191)	-	-	2,854	-
External revenue	90,843	47,288	6,720	-	-	144,851
Expenses	(83,997)	(51,145)	(5,422)	(2,972)	-	(143,536)
Underlying operating profit / (loss)	6,846	(3,857)	1,298	(2,972)	-	1,315
Proforma unaudited adjustment - exceptional price concession on exit of mid-volume automotive business	-	7,104	-	-	-	7,104
Proforma unaudited adjusted operating profit / (loss)	6,846	3,247	1,298	(2,972)	-	8,419
Rationalisation costs	(514)	(971)	-	(451)	-	(1,936)
Costs associated with proposed offer	-	-	-	(52)	-	(52)
Profit arising on the disposal of surplus properties	118	-	-	-	-	118
Impairment of LED Technologies	-	(8,479)	-	-	-	(8,479)
Charge in respect of retirement benefits	-	-	-	(3,559)	-	(3,559)
Proforma unaudited adjustment - exceptional price concession on exit of mid-volume automotive business	-	(7,104)	-	-	-	(7,104)
Statutory operating profit / (loss)	6,450	(13,307)	1,298	(7,034)	-	(12,593)
						-
Net finance expense						(2,061)
Income tax credit						(3,978)
Loss after tax						(18,632)

Analysis by business segment continued

	Technical Plastics £000	LED Technologies £000	Aerospace £000	Unallocated £000	Eliminations £000	Group total £000
Consolidated statement of financial position						
Segment assets	92,387	46,557	6,352	4,270	-	149,566
Segment liabilities	(17,037)	(25,071)	(1,046)	(94,145)	-	(137,299)
Net assets	75,350	21,486	5,306	(89,875)	-	12,267

Other segmental information

Capital expenditure on property, plant and equipment	**1,937**	**5,574**	**311**	**-**	**-**	**7,822**
Capital expenditure on computer software	**42**	**23**	**-**	**22**	**-**	**87**
Depreciation	**4,009**	**1,071**	**178**	**1**	**-**	**5,260**
Amortisation of computer software	**20**	**73**	**-**	**100**	**-**	**193**
Amortisation of other intangibles	**56**	**30**	**-**	**-**	**-**	**86**

Analysis by business segment continued

The segment results for the year ended 31 March 2018 were as follows -

	Technical Plastics £000	LED Technologies £000	Aerospace £000	Unallocated £000	Eliminations £000	Group total £000
Consolidated income statement						
Total revenue	92,237	50,707	6,072	-	(2,802)	146,214
Less inter-segment revenue	(2,584)	(118)	(100)	-	2,802	-
Total external revenue	89,653	50,589	5,972	-	-	146,214
Expenses	(82,980)	(44,167)	(5,225)	(3,031)	-	(135,403)
Underlying operating profit	6,673	6,422	747	(3,031)	-	10,811
Rationalisation costs	(98)	-	-	(458)	-	(556)
Compensation for loss of office	-	-	-	(265)	-	(265)
Costs arising on the disposal of surplus properties	-	-	-	4	-	4
Impairment of CIT Technology	-	-	-	(66)	-	(66)
Litigation costs	-	-	-	(21)	-	(21)
Operating profit / (loss)	6,575	6,422	747	(3,837)	-	9,907
						-
Net finance expense						(1,740)
Income tax expense						325
						-
Profit after tax						8,492

Analysis by business segment continued

	Technical Plastics £000	LED Technologies £000	Aerospace £000	Unallocated £000	Eliminations £000	Group total £000
Consolidated statement of financial position						
Segment assets	100,640	44,164	6,486	8,771	-	160,061
Segment liabilities	(22,516)	(9,698)	(784)	(75,044)	-	(108,042)
Net assets	78,124	34,466	5,702	(66,273)	-	52,019
Other segmental information						
Capital expenditure on property, plant and equipment	6,079	2,966	81	149	-	9,275
Capital expenditure on computer software	37	53	-	260	-	350
Capital expenditure on other intangibles	-	-	-	-	-	-
Depreciation	3,592	938	165	37	-	4,732
Amortisation of computer software	19	30	-	112	-	161
Amortisation of other intangibles	56	31	-	33	-	120

Analysis by geographical segment

The business operates in three main geographical regions - the United Kingdom, North America and in lower cost regions including the Czech Republic, China and India, and the geographical analysis was as follows -

	External revenue		Net segment assets		Expenditure on tangible fixed assets and computer software	
	2019	2018	**2019**	2018	**2019**	2018
	£000	£000	**£000**	£000	**£000**	£000
United Kingdom	**39,559**	40,948	**(44,777)**	(10,732)	**6,731**	7,323
North America	**46,566**	45,199	**30,114**	30,569	**770**	860
Rest of world	**58,726**	60,067	**26,930**	32,182	**408**	1,442
	144,851	146,214	**12,267**	52,019	**7,909**	9,625

4. Revenue from contracts with customers

IFRS 15 'Revenue from Contracts with Customers' has been adopted from 1 April 2018. This replaces IAS 18 'Revenue' and IAS 11 'Construction Contracts'. The Group has applied IFRS 15 using the cumulative effect method and therefore the comparative information has not been restated and continues to be reported under IAS 18 and IAS 11. The details of accounting policies under IAS 18 and IAS 11 are disclosed separately where different from those under IFRS 15 and the impact of changes is disclosed below.

a) Nature of goods and services

The following is a description of the principal activities - separated by reportable segments - from which the Group generates its revenues. For more detailed information about reportable segments, see note 3.

i) Technical Plastics segment:

The Technical Plastics segment supplies fine tolerance, injection moulded plastic components, which are used in medical, optical and electronics products. Technical Plastics revenues comprise two typical project types; manufacturing and tooling.

The majority of Technical Plastics' business is in manufacturing injection moulded product.

Control of manufactured finished goods transfers to customers on delivery. Therefore revenue is recognised at a point in time, on delivery of individual manufactured products are delivered to customers. There is no significant impact on revenue recognition resulting from the move from IAS 18 to IFRS 15.

Tooling
The Technical Plastics business also produces injection moulding tools for customers.

Under IFRS 15, an input method of measuring progress towards complete satisfaction of the tooling performance obligation is used, based on costs incurred using a cost to complete approach (i.e. the "percentage of completion method").

This is considered appropriate since the pattern of incurring of costs is representative of the enhancement of the tool.

Under IAS 18, tooling contract revenue was attached to a single performance obligation to produce an injection moulding tool and was recognised over time using a cost to complete approach. Accordingly, there is no significant impact on revenue recognition resulting from the move from IAS 18 to IFRS 15 in relation to tooling revenues within Technical Plastics.

ii) LED Technologies segment:
The LED Technologies segment designs and supplies specialised injection moulded LED based lighting systems for the premium automotive industry and supplies LED optics for various industries.

Premium Automotive Lighting

Manufacturing
Control of manufactured finished goods transfers to customers on delivery. Therefore revenue is recognised at a point in time, on delivery of individual manufactured products are delivered to customers. Therefore there is no significant impact on revenue recognition resulting from the move from IAS 18 to IFRS 15.

Tooling
Premium Automotive Lighting contracts are complex and vary in scope and detail.

For design, development and tooling, which is generally a single performance obligation, revenue is recognised over time using an output measure of value delivered to the customer based on project milestones reached.

Under IAS 18 and IAS 11 Construction Contracts design, development and tooling was typically accounted for as a single performance obligation to design, develop and produce an injection moulding tool; revenue was recognised over time using a cost to complete approach (i.e. the "percentage of completion method"). Because of the nature of design, development and tooling contracts within Premium Automotive Lighting, where contracts are complex and vary in scope and detail, an output method of measuring progress more accurately depicts the transfer of control of design, development and tooling and progress towards delivery of the asset to the customer than a cost to cost approach. The timing of revenue recognition for output based milestones may differ under IFRS 15 depending on the specific requirements of the contract compared to input costs in determining revenue recognition.

iii) Aerospace segment:
The Aerospace segment manufactures components for the aerospace industries.

Control of manufactured finished goods transfers to customers on delivery. Therefore revenue is recognised at a point in time, on delivery of individual manufactured products are delivered to customers. There is no significant impact on revenue recognition resulting from the move

from IAS 18 to IFRS 15.

b) Disaggregation of revenue

	Technical Plastics		LED Technologies		Aerospace		Group total	
	2019	2018*	**2019**	2018*	**2019**	2018*	**2019**	2018*
	£000	£000	**£000**	£000	**£000**	£000	**£000**	£000
Major products/service lines								
Manufacturing	**80,099**	76,056	**33,434**	26,922	**6,720**	5,972	**120,253**	108,950
Tooling	**10,744**	13,597	**13,854**	23,667	**-**	-	**24,598**	37,264
	90,843	89,653	**47,288**	50,589	**6,720**	5,972	**144,851**	146,214
Timing of revenue recognition								
Products transferred at a point in time	**80,099**	76,056	**33,434**	26,922	**6,720**	5,972	**120,253**	108,950
Products and services transferred over time	**10,744**	13,597	**13,854**	23,667	**-**	-	**24,598**	37,264
	90,843	89,653	**47,288**	50,589	**6,720**	5,972	**144,851**	146,214

* The Group has initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated.

c) Contract Balances

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers.

	31 March 2019	1 April 2018*
	£000	£000
Trade receivables	**23,046**	19,693
Contract assets	**20,264**	-
Contract liabilities	**(2,540)**	-
	40,770	19,693

The contract assets primarily relate to the Group's rights to consideration for work completed but not billed at the reporting date on its tooling and premium automotive lighting contracts.

The contract assets are transferred to receivables when the rights become unconditional. The contract liabilities relate to the advance consideration received from customers before the related revenue has been recognised; this applies to tooling contracts in both Premium Automotive Lighting and Technical Plastics.

Premium Automotive Lighting contracts are complex and there is no typical timing of payment. Accordingly contract assets and contract liabilities can vary depending on the circumstances of an individual contract.

* The Group has initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated.

d) Transaction price to remaining performance obligations

The following table includes revenue expected to be recognised in the future related to performance obligations that are (partially) unsatisfied at the reporting date:

Revenue expected to be received	**2020**	**2021**	**2022**	**2023**
	£000	**£000**	**£000**	**£000**
Tooling - Technical Plastics	**1,112**	-	-	-
Tooling - LED Technologies	**3,567**	-	-	-
	4,679	**-**	**-**	**-**

e) Impacts on financial statements

The following tables summarise the impacts of adopting IFRS 15 on the Group's consolidated financial statements for the year ending 31 March 2019 -

Consolidated statement of financial position	As reported	Adjustments	Balances without adoption of IFRS 15
31 March 2019	£000	£000	£000
Deferred tax assets	442	-	442
Inventories	19,657	-	19,657

Trade and other receivables	32,227	(1,724)	30,503
Contract assets	20,264	(2,122)	18,142
Other assets	76,976	-	76,976
Total assets	**149,566**	**(3,846)**	**145,720**
Deferred tax liabilities	4,051	-	4,051
Trade and other payables	31,576	(3,047)	28,529
Contract liabilities	2,540	(1,133)	1,407
Provisions	333	-	333
Other liabilities	98,799	-	98,799
Total liabilities	**137,299**	**(4,180)**	**133,119**
Retained earnings	(5,745)	334	(5,411)
Other equity	18,012	-	18,012
Total equity	**12,267**	**334**	**12,601**

Consolidated statement of profit or loss and OCI	As reported	Adjustments	Balances without adoption of IFRS 15
31 March 2019	£000	£000	£000
Revenue	144,851	3,264	148,115
Raw materials and consumables	(74,344)	-	(74,344)
Other operating charges	(19,048)	(2,999)	(22,047)
Other administrative expenses	(64,052)	-	(64,052)
Net finance expense	(2,061)	-	(2,061)
Income tax expense	(3,978)	-	(3,978)
Profit for the period	(18,632)	265	(18,367)
Other comprehensive income	(20,779)	-	(20,779)
Total comprehensive income	(39,411)	265	(39,146)

Adjustments to revenue, other operating charges, trade and other receivables, trade and other payables, contract assets and contract liabilities resulting from the adoption of IFRS 15 relate principally to the use of the output basis of revenue recognition for Premium Automotive Lighting tooling contracts.

5. Exceptional items

Exceptional items

	2019	2018
	£000	£000
Rationalisation costs	**(1,935)**	(556)
Charge in respect of retirement benefits - see note 9	**(3,559)**	-
Impairment review of LED Technologies	**(8,480)**	-
Litigation costs	**-**	(21)
Costs associated with proposed offer	**(52)**	-
Compensation for loss of office	**-**	(265)
Profit arising on the disposal of surplus properties	**118**	4
Impairment review of CIT Technology	**-**	(66)
Exceptional items	**(13,908)**	(904)
Proforma unaudited adjustment - Exceptional price concession on exit of mid-volume automotive business	**(7,104)**	-
	(21,012)	(904)

Rationalisation costs included Wipac consultancy costs and stock write-offs along with the cost of restructuring the CTP Czech business and other redundancy costs in the US and the UK.

The £3.6 million charge in relation to retirement benefits relates to the cost of GMP equalisation. See note 9 for further details.

The goodwill and intangibles relating to the LED Technologies division were impaired and a charge of £1.1 million and £0.3 million was recognised. The property, plant and equipment was impaired down to its recoverable amount which was based on an estimated value which would be expected to be recovered through a distressed sale process. The impairment recognised against property, plant and equipment was £7.1 million. Other working capital balances within the LED Technologies CGU were not impaired on the basis that the assets were held at the recoverable amount.

During the year a £0.1 million profit was made on the disposal of the remaining Harthill property.

The £7.1 million proforma unaudited adjustment related to the exceptional price concession on exit of mid volume automotive business.

6. Income tax

	2019 £000	2018 £000
The expense recognised in the consolidated income statement comprises -		
United Kingdom corporation tax		
Corporation tax on (losses) / profits for the current year	**108**	-
Adjustments for prior years	**(83)**	652
Overseas taxation	**-**	-
Current tax	**(1,272)**	(1,047)
Adjustments for prior years	**-**	(91)
Total current tax net expense	**(1,247)**	(486)
Deferred tax expense		
Origination and reversal of temporary differences -		
Deferred tax	**1,026**	(899)
Deferred tax - exceptional derecognition of deferred tax assets	**(3,978)**	-
Adjustments for prior years	**221**	(280)
Rate change	**-**	1,990
Total deferred tax (charge) / credit	**(2,731)**	811
Total income tax (expense) / credit recognised in the consolidated income statement	**(3,978)**	325

Factors affecting the tax charge for the year -

The tax assessed for the year is lower (2018 - lower) than the standard rate of corporation tax in the UK. The differences are explained as follows -

	2019 £000	2019 %	2018 £000	2018 %
(Loss) / profit before tax	**(14,654)**		8,167	
Income tax using standard rate of UK corporation tax of 19% (2018 - 19%)	**(2,784)**	**19.0**	1,552	19.0
Other items not deductible for tax purposes	**(486)**	**3.3**	77	0.9
Provision made against recoverability of Wipac assets	**2,677**	**(18.3)**	-	-
Adjustments in respect of overseas tax rates	**207**	**(1.4)**	341	4.2
Other temporary differences	**142**	**(1.0)**	(142)	(1.7)
Exceptional derecognition of deferred tax assets	**3,978**	**(27.1)**	-	-
Adjustment to current tax in respect of prior periods (UK and overseas)	**83**	**(0.6)**	(561)	(6.9)
Adjustments to deferred tax in respect of prior periods (UK and overseas)	**(221)**	**1.5**	280	3.4
Foreign taxes expensed in the UK	**382**	**(2.6)**	118	1.5
Rate change on deferred tax	**-**	**-**	(1,990)	(24.4)
Total income tax charge / (credit)	**3,978**	**(27.2)**	(325)	(4.0)

On 22 December 2017 the Tax Cuts and Jobs Act in the USA was substantively enacted and reduced the federal corporate income tax rate from 35% to 21%. As at 31 March 2018 this reduced the carrying value of the Group's net USA deferred tax liabilities by £1.990 million with a corresponding tax credit being recognised in the consolidated income statement.

A net tax charge of £2.76 million (2018 credit: £0.203 million) has been classified as exceptional items, mainly in relation to derecognition of UK deferred tax assets in the year.

Tax on items charged outside of the Consolidated Income Statement -

	2019 £000	2018 £000
Deferred tax relating to actuarial remeasurement of the defined benefit scheme	**5,260**	392
Share based payments	**218**	106
Foreign exchange movements	**61**	(138)
Total income tax credited to equity	**5,539**	360

7. Earnings per share

The calculation of basic earnings per share is based on the (loss) / profit attributable to equity holders of the parent company divided by the weighted average number of ordinary shares outstanding during the year.

The calculation of diluted earnings per share is based on the (loss) / profit attributable to equity holders of the parent company divided by the weighted average number of ordinary shares outstanding during the year adjusted for dilutive options.

The following details the result and average number of shares used in calculating the basic and diluted earnings per share -

	2019 **£000**	2018 £000
(Loss) / profit after tax from continuing operations	**(18,632)**	8,492
Loss attributable to non-controlling interests	**-**	-
(Loss) / profit after tax, attributable to equity holders of the parent	**(18,632)**	8,492

	2019 **Shares**	2018 Shares
Weighted average number of ordinary shares in the year	**73,374,078**	73,210,394
Effect of share options in issue	**-**	1,296
Weighted average number of ordinary shares (diluted) in the year	**73,374,078**	73,211,690

In addition to the above, the company also calculates an earnings per share based on underlying profit as the Board believes this to be a better yardstick against which to judge the progress of the Group. Underlying profit is defined as profit before impairments, rationalisation costs, one-off retirement benefit effects, exceptional bad debts, exceptional stock losses, business closure costs, litigation costs and the impact of property and business disposals, net of attributable taxes. These items are excluded as they do not reflect the underlying performance of the group as they are non-recurring.

The following table reconciles:
- the Group's profit to underlying profit used in the numerator in calculating underlying earnings per share; and
- the Group's profit to proforma unaudited underlying profit used in the numerator in calculating proforma unaudited adjusted earnings per share.

	2019 **£000**	2018 £000
(Loss) / profit after tax, attributable to equity holders of the parent	**(18,632)**	8,492
Exceptional items		
Rationalisation costs, net of tax	**1,837**	419
Costs associated with proposed offer	**52**	-
Compensation for loss off office, net of tax	**-**	215
Litigation costs, net of tax	**-**	17
Impairment review of LED Technologies, net of tax	**8,480**	-
Impairment review of CIT Technology, net of tax	**-**	53
Charge in respect of retirement benefits, net of tax	**3,559**	-
Profit arising on the disposal of surplus properties, net of tax	**(118)**	(3)
Non-operating exceptional items		
Tax credit resulting from the US Tax Cuts and Jobs Act	**-**	(1,990)
Derecognition of UK deferred tax assets	**2,858**	-
Underlying profit attributable to equity holders of the parent	**(1,964)**	7,203
Proforma unaudited adjustment - exceptional price concession on exit from mid-volume automotive business	**7,104**	-
Proforma unaudited adjusted profit attributable to equity holders of the parent	**5,140**	7,203

The US Tax Cuts and Jobs Act was substantively enacted during the year ended 31 March 2018 and reduced the federal corporate income tax rate from 35% to 21%. This resulted in a one-off tax credit to the income statement of £1.990 million.

The following table summarises the earnings per share figures based on the above data -

	2019 **Pence**	2018 Pence
Basic (loss) / earnings per share - continuing operations	**(25.4)**	11.6
Basic (loss) / earnings per share - total	**(25.4)**	11.6
Diluted (loss) / earnings per share - continuing operations	**(25.4)**	11.6
Diluted (loss) / earnings per share - total	**(25.4)**	11.6
Underlying (loss) / earnings per share - basic	**(2.7)**	9.8

Underlying (loss) / earnings per share - diluted	**(2.7)**	9.8
Proforma unaudited adjusted earnings per share - basic	**7.0**	9.8
Proforma unaudited adjusted earnings per share - diluted	**7.0**	9.8

8. Dividends paid and proposed

The directors are not proposing a final dividend for the year ended 31 March 2019. No interim dividend has been paid after the year end.

9. Retirement benefit obligations

The Group operates a defined benefit UK pension scheme which provides pensions based on service and final pay. Outside of the UK, retirement benefits are determined according to local practice and funded accordingly.

In the UK, Carclo plc sponsors the Carclo Group Pension Scheme (the "Scheme"), a funded defined benefit pension scheme which provides defined benefits for some of its members. This is a legally separate, trustee administered fund holding the Scheme's assets to meet long term pension liabilities for some 3,009 current and past employees as at 31 March 2018.

The Trustees of the Scheme are required to act in the best interest of the Scheme's beneficiaries. The appointment of the Trustees is determined by the Scheme's trust documentation. It is policy that one third of all Trustees should be nominated by the members. The Trustees currently comprise three company-nominated trustees (of which one is independent and one is chairman) as well as two member-nominated trustees. The Trustees are also responsible for the investment of the Scheme's assets.

The Scheme provides pensions and lump sums to members on retirement and to their dependants on death. The level of retirement benefit is principally based on final pensionable salary prior to leaving active service and is linked to changes in inflation up to retirement. The defined benefit scheme is closed to new entrants who now have the option of entering into a defined contribution scheme and the Company has elected to cease future accrual for existing members of the defined benefit scheme such that members who have not yet retired are entitled to a deferred pension.

The Company currently pays contributions to the Scheme as determined by regular actuarial valuations. The Trustees are required to use prudent assumptions to value the liabilities and costs of the Scheme whereas the accounting assumptions must be best estimates.

The Scheme is subject to the funding legislation, which came into force on 30 December 2005, outlined in the Pensions Act 2004. This, together with documents issued by the Pensions Regulator, and Guidance Notes adopted by the Financial Reporting Council, set out the framework for funding defined benefit occupational pension plans in the UK.

A full actuarial valuation was carried out as at 31 March 2015 in accordance with the scheme funding requirements of the Pensions Act 2004. The funding of the Scheme is agreed between the Group and the Trustees in line with those requirements. These in particular require the surplus or deficit to be calculated using prudent, as opposed to best estimate actuarial assumptions. This 31 March 2015 actuarial valuation showed a deficit of £46.1 million. Under the recovery plan agreed with the Trustees following the 2015 valuation, the Group agreed that it would aim to eliminate the deficit over a period of 14 years 8 months from 1 November 2015 by the payment of annual contributions of £1.2 million which increase at 2.9% per annum, together with the assumed asset returns in excess of the rate used to discount the liabilities. Under that plan, the amount payable for the year ending 31 March 2020 would have been £1.3 million plus expenses of the Scheme and the Pension protection Fund ("PPF") levy. The triennial actuarial valuation as at 31 March 2018 is currently being carried out but has not yet been finalised. The recovery plan will be updated following that valuation. After the year end an agreement was reached with the Trustees as to the level of contribution for the next 18 months. For the year ending 31 March 2020, the contributions will total £2.0 million including scheme expenses and PPF levy.

For the purposes of IAS19 the preliminary results of the actuarial valuation as at 31 March 2018, which was carried out by a qualified independent actuary, have been updated on an approximate basis to 31 March 2019. There have been no changes in the valuation methodology adopted for this period's disclosures compared to the previous period's disclosures.

The Scheme exposes the Group to actuarial risks and the key risks are set out in the table below. In each instance these risks would detrimentally impact the Group's balance sheet position and may give rise to increased interest costs in the Group income statement. The Trustees could require higher cash contributions or additional security from the Group.

The Trustees manage governance and operational risks through a number of internal controls policies, including a risk register and integrated risk management.

Risk	Description	Mitigation
Investment risk	Weaker than expected investment returns result in a worsening in the Scheme's funding position.	The Trustees continually monitor investment risk and performance and have established an investment sub-committee which includes a Group representative, meets regularly and is advised by professional investment advisors. Fiduciary investment management operates for tactical investment management of the plan assets. The Scheme invests approximately 72.5% of its asset value in a portfolio of diversified growth funds which aims to generate strong returns with less short-term volatility than equities.
Interest rate risk	A decrease in corporate bond yields increases the present value of the IAS 19 defined benefit obligations. A decrease in gilt yields results in a worsening in the Scheme's funding position.	The Trustees' investment strategy includes investing in liability-driven investments and bonds whose values increase with decreases in interest rates. Approximately 75% of the Scheme's funded liabilities are currently hedged against interest rates using liability-driven investments and the Trustees have a step plan to incrementally increase this level of hedging as its funding position improves.

		Note that the Scheme hedges interest rate risk on a statutory and long-term funding basis (gilts) whereas AA corporate bonds are implicit in the IAS 19 discount rate and so there is some mismatching risk to the Group should yields on gilts and corporate bonds diverge. The Scheme's exposure to corporate bonds mitigates this risk to some extent.
Inflation risk	An increase in inflation results in higher benefit increases for members which in turn increases the Scheme's liabilities.	The Trustees' investment strategy includes investing in liability-driven investments which will move with inflation expectations and hedge approximately 80% of total inflation linked liabilities. The growth assets held are expected to provide protection over inflation in the long term. Approximately 110% of the Scheme's funded liabilities are currently hedged against inflation.
Mortality risk	An increase in life expectancy leads to benefits being payable for a longer period which results in an increase in the Scheme's liabilities.	The Trustees' actuary provides regular updates on mortality, based on scheme experience, and the assumption continues to be reviewed.

The amounts recognised in the balance sheet in respect of the defined benefit scheme were as follows -

	2019 £000	2018 £000
Present value of funded obligations	**(215,391)**	(199,883)
Fair value of scheme assets	**166,270**	170,085
Recognised liability for defined benefit obligations	**(49,121)**	(29,798)

The present value of Scheme liabilities is measured by discounting the best estimate of future cash flows to be paid out of the Scheme using the projected unit credit method. The value calculated in this way is reflected in the net liability in the balance sheet as shown above.

The projected unit credit method is an accrued benefits valuation method in which allowance is made for projected earnings increases. The accumulated benefit obligation is an alternative actuarial measure of the Scheme's liabilities whose calculation differs from that under the projected unit credit method in that it includes no assumption for future earnings increases. In this case as the Scheme is closed to future accrual, the accumulated benefit obligation is equal to the valuation using the projected unit credit method.

All actuarial gains and losses will be recognised in the year in which they occur in other comprehensive income. The cumulative remeasurement net loss reported in the statement of comprehensive income since 1 April 2004 is £49.457 million.

The present value of the deficit funding commitment to the Carclo Group Pension Scheme is less than the IAS 19 deficit at the balance sheet date and therefore IFRIC 14 has no effect on the figures disclosed.

Movements in the net liability for defined benefit obligations recognised in the consolidated statement of financial position -

	2019 £000	2018 £000
Net liability for defined benefit obligations at the start of the year	**(29,798)**	(32,503)
Contributions paid	**1,238**	1,227
Net expense recognised in the consolidated income statement (see below)	**(4,347)**	(830)
Remeasurement (losses) / gains recognised directly in equity	**(16,214)**	2,308
Net liability for defined benefit obligations at the end of the year	**(49,121)**	(29,798)

Movements in the present value of defined benefit obligations -

	2019 £000	2018 £000
Defined benefit obligation at the start of the year	**199,883**	209,448
Interest expense	**5,243**	5,285
Actuarial losses due to scheme experience	**3,726**	334
Actuarial losses due to changes in demographic assumptions	**8,537**	-
Actuarial losses / (gains) due to changes in financial assumptions	**5,900**	(2,756)
Benefits paid	**(11,457)**	(12,428)
Past service costs	**3,559**	-
Defined benefit obligation at the end of the year	**215,391**	199,883

The English High Court ruling in Lloyds Banking Group Pension Trustees Limited v Lloyds Bank plc and others was published on 26 October 2018, and held that UK pension schemes with Guaranteed Minimum Pensions (GMPs) accrued from 17 May 1990 must equalise for the different effects of these GMPs between men and women. The case also gave some guidance on related matters, including the methods for equalisation.

The Trustees of the plan will need to obtain legal advice covering the impact of the ruling on the plan, before deciding with the employer on the method to adopt. The legal advice will need to consider (amongst other things) the appropriate GMP equalisation solution, whether there should be a time limit on the obligation to make back-payments to members (the "look-back" period) and the treatment of former members (members who have died without a spouse and members who have transferred out for example).

The Trustees commissioned scheme-specific calculations to determine the likely impact of the ruling on the Scheme. The initial analysis suggests that an allowance of 1.68% of the total value of the accrued liabilities would be appropriate and that allowance has been made in these disclosures with a resulting past service cost of £3.559 million recognised in the income statement.

The Scheme liabilities are split between active, deferred and pensioner members at 31 March as follows -

	2019	2018
	%	%
Active		
Deferred	**43**	35
Pensioners	**57**	65
	100	100

Movements in the fair value of Scheme assets -

	2019	2018
	£000	£000
Fair value of Scheme assets at the start of the year	**170,085**	176,945
Interest income	**4,455**	4,455
Return on Scheme assets excluding interest income	**1,949**	(114)
Contributions by employer	**1,238**	1,227
Benefits paid	**(11,457)**	(12,428)
Fair value of Scheme assets at the end of the year	**166,270**	170,085
Actual return on Scheme assets	**6,404**	4,341

The fair value of Scheme asset investments was as follows -

	2019	2018
	£000	£000
Diversified Growth Funds	**126,396**	130,537
Bonds and Liability Driven Investments	**38,893**	39,033
Cash	**981**	515
	166,270	170,085

None of the fair values of the assets shown above include any of the Group's own financial instruments or any property occupied, or other assets used, by the Group.

All of the Scheme assets have a quoted market price in an active market with the exception of the Trustees' bank account balance.

Diversified growth funds are pooled funds invested across a diversified range of assets with the aim of giving long term investment growth with lower short term volatility than equities.

It is the policy of the Trustees and the Group to review the investment strategy at the time of each funding valuation. The Trustees' investment objectives and the processes undertaken to measure and manage the risks inherent in the Scheme are set out in the Statement of Investment Principles.

A proportion of Scheme's assets is invested in the BMO LDI Nominal Dynamic LDI Fund, BMO LDI Equity-linked Real DLDI Sub-Fund Weekly and BMO LDI Equity-linked Nominal LDI Sub-Fund which provide a degree of asset liability matching.

The expense recognised in the consolidated income statement was as follows -

	2019	2018
	£000	£000
Past service cost	**3,559**	-
Net interest on the net defined benefit liability	**788**	830
	4,347	830

The expense is recognised in the following line items in the consolidated income statement -

	2019	2018
	£000	£000
Charged to exceptional items	**3,559**	-
Other finance revenue and expense - net interest on the net defined benefit liability	**788**	830
	4,347	830

The principal actuarial assumptions at the balance sheet date (expressed as weighted averages) were -

	2019	2018
Discount rate at 31 March	**2.40%**	2.70%

	2019	2018
Future salary increases	**N/A**	N/A
Inflation (RPI)	**3.30%**	3.45%
Inflation (CPI)	**2.20%**	2.35%
Allowance for pension in payment increases of RPI or 5% p.a. if less	**3.20%**	3.35%
Allowance for pension in payment increases of CPI or 3% p.a. if less	**2.20%**	2.35%
Allowance for pension in payment increases of RPI or 5% p.a. if less, minimum 3% p.a.	**3.30%**	3.45%
Allowance for pension in payment increases of RPI or 5% p.a. if less, minimum 4% p.a.	**4.00%**	4.15%

The mortality assumptions adopted at 31 March 2019 are 137% of the standard tables S2PxA, Year of Birth, no age rating for males and females, projected using CMI_2018 converging to 1.00% p.a. These imply the following life expectancies -

	2019	2018
Life expectancy for a male (current pensioner) aged 65	**19.3 years**	18.3 years
Life expectancy at 65 for a male aged 45	**20.3 years**	19.5 years

It is assumed that 75% of the post A-Day maximum for actives and deferreds will be commuted for cash (2018 - 100%).

The pension scheme liabilities are derived using actuarial assumptions for inflation, future salary increases, discount rates, mortality rates and commutation. Due to the relative size of the Scheme's liabilities, small changes to these assumptions can give rise to a significant impact on the pension scheme deficit reported in the Group balance sheet.

The sensitivity to the principal actuarial assumptions of the present value of the defined benefit obligation is shown in the following table -

	2019	**2019**	2018	2018
	%	**£000**	%	£000
Discount rate [1]				
Decrease of 0.25% per annum	**3.60%**	**7,754**	3.50%	6,996
Decrease of 1.0% per annum	**15.7%**	**33,816**	14.6%	29,183
Inflation [2]				
Increase of 0.25% per annum	**2.00%**	**4,308**	1.90%	3,798
Increase of 1.0% per annum	**7.60%**	**16,370**	8.00%	15,991
Life expectancy				
Increase of 1 year	**3.80%**	**8,185**	3.60%	7,196

1 At 31 March 2019, the assumed discount rate is 2.40% (2018: 2.70%).
2 At 31 March 2019, the assumed rate of RPI inflation is 3.30% and CPI inflation 2.20% (2018: RPI 3.45% and CPI 2.35%).

The sensitivities shown above are approximate. Each sensitivity considers one change in isolation. The inflation sensitivity includes the impact of changes to the assumptions for revaluation and pension increases.

The weighted average duration of the defined benefit obligation at 31 March 2019 is 14 years (2018: 14 years).

The life expectancy assumption has been applied by allowing for an increase/decrease in life expectation from age 60 of one year, based upon the approximate weighted average age for the Scheme. Whilst this is an approximate approach and will not give the same result as a one year increase in life expectancy at every age, it provides an appropriate indication of the potential impact on the Scheme from changes in life expectancy.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from the prior year.

The history of the Scheme's deficits and experience gains and losses is shown in the following table -

	2019	2018
	£000	£000
Present value of funded obligation	**(215,391)**	(199,883)
Fair value of scheme asset investments	**166,270**	170,085
Recognised liability for defined benefit obligations	**(49,121)**	(29,798)
Actual return on scheme assets	**6,404**	4,341
Actuarial (losses) due to scheme experience	**(3,726)**	(334)
Actuarial (losses) due to changes in demographic assumptions	**(8,537)**	-
Actuarial (losses) / gains due to changes in financial assumptions	**(5,900)**	2,756

10. Ordinary share capital

Ordinary shares of 5 pence each -

	Number of shares	**£000**
Issued and fully paid at 31 March 2018	73,286,918	3,664

Shares issued on exercise of share options	132,275	7
Issued and fully paid at 31 March 2019	**73,419,193**	**3,671**

11. Cash generated from operations

	2019 **£000**	2018 £000
(Loss) / profit for the year	**(18,632)**	8,492
Adjustments for -		
Pension fund contributions	**(1,238)**	(1,227)
Depreciation charge	**5,260**	4,732
Amortisation of intangible assets	**279**	281
Exceptional tangible fixed asset write down, arising on rationalisation of business	**7,115**	-
Exceptional impairment of intangible assets, arising on rationalisation of business	**1,365**	66
Loss on disposal of other plant and equipment	**7**	22
Exceptional charge in respect of retirement benefits	**3,559**	-
Provisions charged in respect of exit of Harthill operation	**-**	-
Cash flow relating to provision for site closure costs	**(151)**	(209)
Share based payment charge / (credit)	**36**	(40)
Financial income	**(58)**	(99)
Financial expense	**2,119**	1,839
Taxation	**3,978**	(325)
Operating cash flow before changes in working capital	**3,639**	13,532
Changes in working capital		
Decrease / (Increase) in inventories	**456**	(1,218)
(Increase) in contract assets	**(20,264)**	-
Decrease / (Increase) in trade and other receivables	**14,799**	(8,842)
Increase in trade and other payables	**2,975**	2,785
Increase in contract liabilities	**2,540**	-
Cash generated from operations	**4,145**	6,257

Information for shareholders

Reconciliation of non-GAAP financial measures

	2019 **£000**	2018 £000
Statutory (loss) / profit after tax	**(18,632)**	8,492
Add back: Total income tax expense / (credit)	**3,978**	(325)
Statutory (loss) / profit before tax	**(14,654)**	8,167
Add back: Net financing charge	**2,061**	1,740
Statutory operating (loss) / profit	**(12,593)**	9,907
Add back: Exceptional items	**13,907**	904
Underlying operating profit	**1,314**	10,811
Add back: Proforma unaudited adjustment - exceptional price concession	**7,104**	-
Proforma unaudited adjusted operating profit	**8,418**	10,811
Add back: Amortisation of intangible assets	**279**	281
Add back: Depreciation of property, plant and equipment	**5,260**	4,732
Group proforma unaudited adjusted earnings before interest, tax, depreciation and amortisation ('EBITDA')	**13,957**	15,824
Statutory (loss) / profit before tax	**(14,654)**	8,167

Add back: Exceptional items	**13,907**	904
Underlying (loss) / profit before tax	**(747)**	9,071
Add back: Proforma unaudited adjustment - exceptional price concession	**7,104**	-
Proforma unaudited adjusted profit before tax	**6,357**	9,071
Group statutory tax expense / (credit)	**3,978**	(325)
Add back: Exceptional tax (expense) / credit	**(2,760)**	2,193
Group underlying tax expense	**1,218**	1,868
Add back: Tax impact of exceptional price concession	**-**	-
Group proforma unaudited adjusted tax expense	**1,218**	1,868
Group statutory effective tax rate	**-27.2%**	-4.0%
Group underlying effective tax rate	**-163.1%**	20.6%
Group proforma unaudited adjusted effective tax rate	**19.2%**	20.6%
Cash at bank and in hand	**10,330**	12,962
Interest bearing loans and borrowings - current	**(47,763)**	(15,185)
Interest bearing loans and borrowings - non-current	**(1,048)**	(29,253)
Net Debt	**(38,481)**	(31,476)

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