RNS Number : 5936C
Castings PLC
14 June 2023

The information contained within this announcement is deemed by the Company to constitute inside information stipulated under the Market Abuse Regulation (EU) No. 596/2014 as it forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018. Upon the publication of this announcement via the Regulatory Information Service, this inside information is now considered to be in the public domain.

Castings P.L.C.
Annual Financial Report
DTR 6.3.5 Disclosure
Year ended 31 March 2023

Chairman's Statement

The turnover of the group increased to £201 million (£149 million last year) with a rise in profit before tax to £16.7 million compared to £12.1 million last year.

Overview

Turnover increased by 35% compared with the previous year and operating profit increased by 36%. The despatch weight was at the highest level since 2014.

Demand from our customers has been very strong, with the heavy truck OEMs (approximately 75% of revenue) increasing build rates throughout the year and this has continued into the current financial year. In order to satisfy the increasing schedules, which has been skewed towards certain production lines, it has been necessary to rebalance production in the foundries which resulted in some inefficiencies particularly in the second half of the year, but these are now behind us.

We have experienced very significant price increases in raw materials and energy, which have been largely recovered from our customers through established escalators. The most significant increase related to electricity following the end of our fixed price contract on 30 September 2022. This additional cost of power was surcharged to our customers and although it did not adversely affect group profit, it did impact reported margins.

Further price increases have been negotiated in respect of other cost rises which have taken effect from the start of the current financial year.

Foundry businesses

Despite the impact of the production rebalancing, foundry production increased compared to the prior year. The recruitment issues that have been experienced in the last few years now seem to be largely behind us. With increased demand, the foundry profitability has improved compared to the previous year, although the margin percentage is impacted by the direct pass-through of the cost increases.

We continue to invest both at Castings Brownhills and William Lee to improve productivity, reduce labour costs and improve working conditions.

CNC Speedwell

It is pleasing to report on the return to profitability in the machining business, with a particularly strong final quarter of the financial year. With higher output levels and improved prices, the current performance of CNC Speedwell is beginning to reflect the level of investment that has been made in the business.

Outlook

Our customers continue to increase schedules with the demand for heavy trucks in particular remaining very strong. In addition, demand in other growth sectors such as USA, wind energy, trailer braking and coupling systems and innovative agricultural products continues to grow.

Dividend

The directors are recommending the payment of a final dividend of 13.51 pence per share to be paid on 18 August 2023 to shareholders on the register on 21 July 2023. This, together with the interim dividend, gives a total dividend for the year of 17.35 pence per share.

Supplementary dividend

In addition to the final dividend set out above, the board has reviewed the cash position of the group and considered the balance between increasing returns to shareholders whilst retaining flexibility for capital and other investment opportunities. As a result, the directors are declaring a supplementary dividend of 15 pence per share to be paid on 26 July 2023 to shareholders on the register on 23 June 2023. This dividend, being discretionary and non-recurring, does not compromise our commitment to invest in market leading technologies to maintain our competitive advantage.

Brian Cooke

As previously announced, after nearly sixty three years with the company, of which forty have been as Chairman, Brian Cooke is standing down as a director and will not be seeking re-election at the AGM in August. Brian joined the company from foundry college in 1960 and was appointed a director six years later. Prior to becoming Chairman in 1983, he served as managing director at Brownhills and then as group chief executive.

Brian has led Castings from the front and everything the group does reflects his energy and wise business acumen. We would all like to thank him for his outstanding contribution over the last seven decades. I am very pleased that he has agreed to remain available to consult with the group after the AGM.

I also wish to thank the directors, senior management and all of our employees for their help and commitment during the year.

A. N. Jones
Chairman

14 June 2023

Business and Financial Review

General overview

The year has seen increasing demand during the period with our commercial vehicle customers, which make up approximately 75% of group revenue, experiencing extremely strong order books for heavy trucks.

With demand being skewed towards particular foundry lines, significant production rebalancing has been necessary to try to satisfy the dramatic schedule increases. This has caused some production inefficiencies, particularly in the second half of the year, but these are now largely behind us.

Input price increases have been another key element in the financial year. We have seen significant changes in respect of raw materials and energy which have been recovered from our customers through established escalators. The most significant increase related to electricity following the end of a fixed price contract on 30 September 2022; the additional cost for power (approximately £15 million) was surcharged to our customers and resulted in increased revenue in the second half of the year. This did not adversely affect group profit as it is a pass-through of a direct cost increase.

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

Key Performance Indicators
The key performance indicators considered by the group are:

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

Foundry operations
As set out previously, customer demand was strong with schedules increasing during the financial year.

The foundry businesses experienced an increase in output of 6.6% to 53,100 tonnes and a rise in external sales revenue of
£53.4 million (36.7%) to £199.0 million. After taking into account the reduction in weight from machining, this equates to approximately 59,000 tonnes of production.

Of the total output weight for the year, 59.2% related to machined castings compared to 54.0% in the previous year. The change reflects a return to the increasing proportion of more complex, machined parts after the reduction last year as a result of disrupted demand patterns.

The segmental profit has increased to
£16.3 million, from £13.1 million in the previous year, which represents a profit margin of 7.3% on total segmental sales (2022 - 8.0%).

The most significant impact on the margin percentage is due to the pass-through impact of cost rises, along with the disruption due to production rebalancing. Further price increases have been negotiated with customers to address the margin erosion experienced during the year.

Investment of £4.8 million has been made in the foundry businesses during the year. This included £0.8 million completing the project to partially automate the pouring on one of the William Lee production lines and a further £1.1 million on other automation projects.

Machining
The machining business generated total sales of £27.7 million in the year compared to £22.5 million in the previous year. Of the total revenue, 7.3% was generated from external customers compared to 13.3% in 2022.

The segmental result for the year was a profit of £0.2 million (2022 - loss of £0.9 million).

With the higher volumes in the year, the benefits of the engineering and productivity improvements that have been made are now being realised. With the pricing corrections that have been made, the result in the final quarter was particularly strong.

We have invested £1.4 million during the year, which included £0.4 million in the roll-out of automation which will continue during the current year. A further £0.5 million investment was made in a more power efficient cooling plant in one area of the business, which will help to reduce energy consumption.

Business review and performance

Revenue
Group revenues increased by 35.3% to £201.0 million compared to £148.6 million reported in 2022, of which 83% was exported (2022 - 79%).

The revenue from the foundry operations to external customers increased by 36.7% to £199.0 million (2022 - £145.6 million) with the dispatch weight of castings to third-party customers increasing by 6.6% to 53,100 tonnes (2022 - 49,800 tonnes).

Revenue from the machining operation to external customers decreased by 32.3% during the year to £2.0 million (2022 -
£3.0 million).

Operating profit and segmental result
The group operating profit for the year was £16.4 million compared to £12.0 million reported in 2022, which represents a return on sales of 8.1% (2022 - 8.1%).

Finance income
The level of finance income increased to £0.34 million compared to £0.05 million in 2022, reflecting the rising interest rates available on deposits during the financial year.

Profit before tax
Profit before tax has increased to £16.7 million from £12.1 million in the prior year.

Taxation
The current year tax charge of £2.92 million (2022 - £3.52 million) is made up of a current tax charge of £2.41 million (2022 - £1.89 million) and a deferred tax charge of £0.51 million (2022 - charge of £1.63 million).

The effective rate of tax of 17.5% (2022 - 29.2%) is lower than the main rate of corporation tax of 19%. The primary reason for this is a credit to the deferred tax estimate relating to the prior year of £0.43 million, offset by the deferred tax liability arising from the super-deduction claimed on plant investment during the year.

Earnings per share
Basic earnings per share increased 61.5% to 31.66 pence (2022 - 19.60 pence), reflecting the 38.0% increase in profit before tax and a significantly lower effective tax rate compared to the previous year.

Options over 42,468 shares were granted during the year (2022 - options over 32,149 shares). The company purchased 47,900 shares during the year (2022 - 26,100). As a result, the weighted average number of shares has decreased to 43,671,502 resulting in a diluted earnings per share of 31.58 pence per share (2022 - 19.57 pence per share).

Dividends

The directors are recommending a final dividend of 13.51 pence per share (2022 - 12.57 pence per share) to be paid on 18 August 2023 to shareholders on the register on 21 July 2023. This would give a total ordinary distribution for the year of 17.35 pence per share (2022 - 16.23 pence per share).

In addition, a supplementary dividend of 15.00 pence per share has been declared which will be payable on 26 July 2023 to shareholders on the register on 23 June 2023.

Cash flow
The group generated cash from operating activities of £22.4 million compared to £12.9 million in 2022. When compared to 2022, the variance is mainly due to a significant increase in operating profit of £4.6 million and a working capital outflow swing of £5.1 million.

In the year to 31 March 2023, the main working capital movements centre around the higher input prices from suppliers which are then passed onto customers in the form of higher selling prices. This has resulted in a £10.0 million increase in trade receivables in the year and a £6.5 million increase in trade payables. The input price increase impact on inventory has been offset by the lower level held in stock at the year end compared to the prior year.

Corporation tax payments during the year totalled £2.9 million compared to £2.6 million in 2022.

Capital expenditure during the year amounted to £6.2 million (2022 - £4.4 million). This included investment of £0.8 million as part of a foundry moulding line automation project as well as other automation and productivity enhancements. The charge for depreciation was £8.6 million (2022 - £8.6 million).

The company pays pensions on behalf of the two final salary pension schemes and then reclaims these advances from the schemes. During the year repayments of £2.1 million (2022 - £2.5 million) were received from the schemes and advances were paid on behalf of the schemes of £2.1 million (2022 - £2.1 million). These advances will be repaid to the company during the current financial year.

Dividends paid to shareholders were £13.7 million in the year (2022 - £6.7 million) which includes £6.5 million in relation to a supplementary dividend in respect of the year ended 31 March 2022.

The company purchased 47,900 (2022 - 26,100) shares to be held in treasury at a total cost of £0.15 million (2022 - £0.08 million).

The net cash and cash equivalents movement for the year was a slight decrease of £0.18 million (2022 - decrease of £0.35 million).

At 31 March 2023, the total cash and deposits position was £35.6 million (2022 - £35.8 million).

Pensions
The pension valuation showed an increase in the surplus, on an IAS 19 (Revised) basis, to £10.4 million compared to £9.9 million in the previous year.

The majority of the liabilities of the schemes are covered by an insurance asset that fully matches, subject to final adjustment of the bulk annuity pricing, the remaining pension liabilities of the schemes. However, there remains the uninsured element relating to the GMP equalisation liability. This liability has decreased during the year as a result of the change in valuation assumptions.

The pension surplus continues not to be shown on the balance sheet due to the IAS 19 (Revised) restriction of recognition of assets where the company does not have an unconditional right to receive returns of contributions or refunds.

Balance sheet
Net assets at 31 March 2023 were £131.7 million (2022 - £131.5million). Other than the total comprehensive income for the year of £13.9 million (2022 - £8.7 million), the only movements relate to the dividend payment of £13.7 million (2022 - £6.7 million), shares purchased in the year for £0.15 million (2022 - £0.08 million) and share-based payment charge of £0.1 million
(2022 - £0.08 million).

Non-current assets have decreased to £60.7 million (20221 - £63.2 million) primarily as a result of investment in property, plant and equipment during the year being at a level below the depreciation charge.

Current assets have increased to £113.7 million (2022 - £102.0million) as a result of the increase in trade receivables as previously mentioned.

Total liabilities have increased to £42.8 million (2022 - £33.7 million), largely as a result of an increase in trade payables.

Consolidated Statement of Comprehensive Income
for the year ended 31 March 2023

	2023 £000	2022 £000
Revenue	**200,990**	148,583
Cost of sales	**(162,077)**	(118,105)
Gross profit	**38,913**	30,478
Distribution costs	**(5,440)**	(3,411)
Administrative expenses	**(17,104)**	(15,040)
Profit from operations	**16,369**	12,027
Finance income	**344**	47
Profit before income tax	**16,713**	12,074
Income tax expense	**(2,923)**	(3,522)
Profit for the year attributable to equity holders of the parent company	**13,790**	8,552
Profit for the year attributable to equity holders of the parent company	**13,790**	8,552
Other comprehensive income/(losses) for the year:		
Items that will not be reclassified to profit and loss:		
Movement in unrecognised surplus on defined benefit pension schemes net of actuarial gains and losses	**117**	119
	117	119
Items that may be reclassified subsequently to profit and loss:		
Change in fair value of financial assets	**(40)**	88
Tax effect of items that may be reclassified	**10**	(22)
	(30)	66
Other comprehensive income for the year (net of tax)	**87**	185
Total comprehensive income for the year attributable to the equity holders of the parent company	**13,877**	8,737

Earnings per share attributable to the equity holders of the parent company

Earnings per share attributable to the equity holders of the parent company		
Basic	**31.66p**	19.60p
Diluted	**31.58p**	19.57p

Consolidated Balance Sheet

as at 31 March 2023

	2023 **£000**	2022 £000
ASSETS		
Non-current assets		
Property, plant and equipment	**60,353**	62,801
Financial assets	**356**	396
	60,709	63,197
Current assets		
Inventories	**26,095**	25,889
Trade and other receivables	**51,080**	39,874
Current tax asset	**980**	489
Cash and cash equivalents	**35,566**	35,745
	113,721	101,997
Total assets	**174,430**	165,194
LIABILITIES		
Current liabilities		
Trade and other payables	**37,051**	28,477
	37,051	28,477
Non-current liabilities		
Deferred tax liabilities	**5,719**	5,219
Total liabilities	**42,770**	33,696
Net assets	**131,660**	131,498
Equity attributable to equity holders of the parent company		
Share capital	**4,363**	4,363
Share premium account	**874**	874
Treasury shares	**(231)**	(79)
Other reserve	**13**	13
Retained earnings	**126,641**	126,327
Total equity	**131,660**	131,498

Consolidated Cash Flow Statement

for the year ended 31 March 2023

	2023 **£000**	2022 £000
Cash flows from operating activities		
Profit before income tax	**16,713**	12,074
Adjustments for:		
Depreciation	**8,646**	8,601
Loss on disposal of property, plant and equipment	**-**	62
Finance income	**(344)**	(47)
Equity-settled share-based payment expense	**119**	74
Pension administrative costs	**117**	119
Increase in inventories	**(206)**	(7,170)
Increase in receivables	**(11,200)**	(4,898)
Increase in payables	**8,574**	4,106
Cash generated from operating activities	**22,419**	12,921
Tax paid	**(2,904)**	(2,568)
Interest received	**327**	28
Net cash generated from operating activities	**19,842**	10,381
Cash flows from investing activities		
Dividends received from listed investments	**17**	19
Purchase of property, plant and equipment	**(6,198)**	(4,379)
Proceeds from disposal of property, plant and equipment	**-**	27
Repayments from pension schemes	**2,114**	2,496
Advances on behalf of the pension schemes	**(2,120)**	(2,114)
Net cash used in investing activities	**(6,187)**	(3,951)
Cash flow from financing activities		
Dividends paid to shareholders	**(13,682)**	(6,698)
Purchase of own shares	**(152)**	(79)
Net cash used in financing activities	**(13,384)**	(6,777)
Decrease in cash and cash equivalents	**(179)**	(347)
Cash and cash equivalents at beginning of year	**35,745**	36,092
Cash and cash equivalents at end of year	**35,566**	35,745
Cash and cash equivalents:		
Short-term deposits	**19,993**	17,065
Cash available on demand	**15,573**	18,680
	35,566	35,745

Consolidated Statement of Changes in Equity

for the year ended 31 March 2023

Equity attributable to equity holders of the parent

	Equity attributable to equity holders of the parent					
	Share capital[a)] £000	**Share premium[b)] £000**	**Treasury shares[c)] £000**	**Other reserve[d)] £000**	**Retained earnings[e)] £000**	**Total equity £000**
At 1 April 2022	**4,363**	**874**	**(79)**	**13**	**126,327**	**131,498**
Profit for the year	**-**	**-**	**-**	**-**	**13,790**	**13,790**
Other comprehensive income/(losses):						
Movement in unrecognised surplus on defined benefit pension schemes net of actuarial gains and losses	**-**	**-**	**-**	**-**	**117**	**117**
Change in fair value of financial assets	**-**	**-**	**-**	**-**	**(40)**	**(40)**
Tax effect of items taken directly to reserves	**-**	**-**	**-**	**-**	**10**	**10**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**13,877**	**13,877**
Shares acquired in the year	**-**	**-**	**(152)**	**-**	**-**	**(152)**
Equity-settled share-based payments	**-**	**-**	**-**	**-**	**119**	**119**
Dividends (see note 4)	**-**	**-**	**-**	**-**	**(13,682)**	**(13,682)**
At 31 March 2023	**4,363**	**874**	**(231)**	**13**	**126,641**	**131,660**

	Equity attributable to equity holders of the parent					
	Share capital[a)] £000	Share premium[b)] £000	Treasury shares[c)] £000	Other reserve[d)] £000	Retained earnings[e)] £000	Total equity £000
At 1 April 2021	4,363	874	-	13	124,214	129,464
Profit for the year	-	-	-	-	8,552	8,552
Other comprehensive income/(losses):						
Movement in unrecognised surplus on defined benefit pension schemes net of actuarial gains and losses	-	-	-	-	119	119
Change in fair value of financial assets	-	-	-	-	88	88
Tax effect of items taken directly to reserves	-	-	-	-	(22)	(22)
Total comprehensive income for the year	-	-	-	-	8,737	8,737
Shares acquired in the year	-	-	(79)	-	-	(79)
Equity-settled share-based payments	-	-	-	-	74	74
Dividends (see note 4)	-	-	-	-	(6,698)	(6,698)
At 31 March 2022	4,363	874	(79)	13	126,327	131,498

a) Share capital - The nominal value of allotted and fully paid up ordinary share capital in issue.

b) Share premium - Amount subscribed for share capital in excess of nominal value.

c) Treasury shares - Value of shares acquired by the company.

d) Other reserve - Amounts transferred from share capital on redemption of issued shares.

e) Retained earnings - Cumulative net gains and losses recognised in the statement of comprehensive income.

Notes to the Consolidated Financial Statements

1 Basis of preparation

The group financial statements have been prepared in accordance with UK-adopted international accounting standard in conformity with the requirements of the Companies Act 2006.

The IFRSs applied in the group financial statements are subject to ongoing amendment by the IASB and therefore subject to possible change in the future. Further standards and interpretations may be issued that will be applicable for financial years beginning on or after 1 April 2023 or later accounting periods but may be adopted early.

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

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

The financial statements are prepared on a going concern basis and under the historical cost convention, except where adjusted for revaluations of certain assets, and in accordance with applicable Accounting Standards and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. A summary of the principal group IFRS accounting policies is set out below. The presentation currency used is sterling and the amounts have been presented in round thousands ("£000").

2 Operating segments

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

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

The following shows the revenues, results and total assets by reportable segment in the year to 31 March 2023:

	Foundry operations £000	**Machining operations £000**	**Elimination £000**	**Total £000**
Revenue from external customers	**198,972**	**2,018**	**-**	**200,990**
Inter-segmental revenue	**24,739**	**25,640**	**-**	**50,379**
Segmental result	**16,332**	**169**	**(15)**	**16,486**
Unallocated costs:				
Defined benefit pension cost				**(117)**
Finance income				**344**
Profit before income tax				**16,713**
Total assets	**162,671**	**26,687**	**(14,928)**	**174,430**
Non-current asset additions	**4,826**	**1,372**	**-**	**6,198**
Depreciation	**5,235**	**3,411**	**-**	**8,646**
Total liabilities	**(45,668)**	**(6,759)**	**9,657**	**(42,770)**

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

The following shows the revenues, results and total assets by reportable segment in the year to 31 March 2022:

The following shows the revenues, results and total assets by reportable segment in the year to 31 March 2022:

	Foundry operations £000	Machining operations £000	Elimination £000	Total £000
Revenue from external customers	145,601	2,982	-	148,583
Inter-segmental revenue	17,037	19,488	-	36,525
Segmental result	13,084	(894)	(50)	12,140
Unallocated costs:				
Exceptional credit for recovery of Icelandic bank deposits previously written off				6
Defined benefit pension cost				(119)
Finance income				47
Profit before income tax				12,074
Total assets	148,554	26,741	(10,101)	165,194
Non-current asset additions	3,388	991	-	4,379
Depreciation	4,790	3,811	-	8,601
Total liabilities	(31,561)	(6,977)	4,842	(33,696)

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

	2023 £000	2022 £000
The geographical analysis of revenues by destination for the year is as follows:		
United Kingdom	**34,519**	31,319
Sweden	**55,107**	38,809
Germany	**32,292**	20,506
Netherlands	**31,763**	19,907
Rest of Europe	**31,810**	26,050
North and South America	**14,322**	11,294
Other	**1,177**	698
	200,990	148,583

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

3 Income tax expense

	2023 £000	2022 £000
Corporation tax based on a rate of 19% (2022 - 19%)		
UK corporation tax		
Current tax on profits for the year	**2,500**	2,050
Adjustments to tax charge in respect of prior years	**(87)**	(155)
	2,413	1,895
Deferred tax		
Current year origination and reversal of temporary differences	**935**	624
Adjustment to deferred tax charge in respect of prior years	**(425)**	(107)
Adjustment to deferred tax charge in respect of change in tax rate	**-**	1,100
	510	1,627
Taxation on profit	**2,923**	3,522
Profit before income tax	**16,713**	12,074
Tax on profit at the standard rate of corporation tax in the UK of 19% (2022 - 19%)	**3,175**	2,294
Effect of:		
Expenses not deductible for tax purposes	**238**	357
Adjustment to tax charge in respect of prior years	**(87)**	(155)
Adjustment to deferred tax charge in respect of prior years	**(425)**	(107)
Adjustment to deferred tax charge in respect of change in tax rate	**-**	1,110
Pension adjustments	**22**	23
Total tax charge for the year	**2,923**	3,522
Effective rate of tax (%)	**17.5**	29.2

Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2021 on 24 May 2021, the applicable main rate increasing from the current level of 19% to 25% from 1 April 2023. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

4 Dividends

	2023 £000	2022 £000
Final paid of 12.57p per share for the year ended 31 March 2022 (2021 - 11.69p)	**5,475**	5,101
Interim paid of 3.84p per share (2022 - 3.66p)	**1,673**	1,597
Supplementary dividend of 15.00p per share for the year ended 31 March 2022 (2021 - nil)	**6,534**	-
	13,682	6,698

The directors are proposing a final dividend of 13.51 pence (2022 - 12.57 pence) per share totalling £5,884,695 (2022 - £5,475,249). In addition, the directors have declared a supplementary dividend of 15.00 pence per share, totalling £6,533,710. These dividends have not been accrued at the balance sheet date.

5 Earnings per share and diluted earnings per share

The calculation of the basic and diluted earnings per share is based on the following data:

	2023	2022
Profit after taxation (£000)	**13,790**	8,552
Weighted average number of shares - basic calculation	**43,561,593**	43,631,545
Earnings per share - basic calculation (pence per share)	**31.66p**	19.60p
Number of dilutive share options in issue	**109,909**	67,441
Weighted average number of shares - diluted calculation	**43,671,502**	43,698,986
Earnings per share - diluted calculation (pence per share)	**31.58p**	19.57p

6 Property, plant and equipment

	Freehold land and buildings £000	Plant and equipment £000	Total £000
Cost			
At 1 April 2022	40,110	155,596	195,706
Additions during the year	437	5,761	6,198
Disposals	-	(961)	(961)
Other	410	-	410
At 31 March 2023	**40,957**	**160,396**	**201,353**
Accumulated depreciation			
At 1 April 2022	12,295	120,610	132,905
Charge for year	1,015	7,631	8,646
Disposals	-	(961)	(961)
Other	410	-	410
At 31 March 2023	**13,720**	**127,280**	**141,000**
Net book values			
At 31 March 2023	**27,237**	**33,116**	**60,353**
At 31 March 2022	27,815	34,986	62,801

Cost			
At 1 April 2021	40,357	151,831	192,188
Additions during the year	163	4,216	4,379
Disposals	(410)	(451)	(861)
At 31 March 2022	40,110	155,596	195,706
Accumulated depreciation			
At 1 April 2021	11,632	113,444	125,076
Charge for year	1,073	7,528	8,601
Disposals	(410)	(362)	(772)
At 31 March 2022	12,295	120,610	132,905
Net book values			
At 31 March 2022	27,815	34,986	62,801
At 31 March 2021	28,725	38,387	67,112

The net book value of land and buildings includes £2,169,000 (2022 - £2,169,000) for land which is not depreciated.

Included within plant and equipment are assets in the course of construction with a net book value of £385,000 (2022 - £1,043,000) which are not depreciated.

7 Commitments and contingencies

	2023 £000	2022 £000
Capital commitments contracted for by the group but not provided for in the financial statements	**1,799**	1,637

The group does not insure against the potential cost of product warranty or recall. Accordingly, there is always the possibility of claims against the group for quality related issues on parts supplied to customers. As at 31 March 2023, the directors do not consider any significant liability will arise in respect of any such claims (2022 - £nil).

8 Pensions

The company operates two defined benefit pension schemes which were closed to future accruals at 6 April 2009. The funded status of these schemes at 31 March 2023 was a surplus of £10,413,000 (2022 - £9.932,000). On 24 March 2020, the Trustees of the schemes completed a bulk annuity insurance buy-in with Aviva Life & Pensions UK Limited thus providing certainty and security for all members of the schemes. The buy-in secures an insurance asset from Aviva that fully matches, subject to final price adjustment of the bulk annuity pricing, the remaining pension liabilities of the schemes. The buy-in covers the investment, longevity, interest rate and inflation risks in respect of the schemes and therefore substantially reduces the pension risk to the company.

The pension surplus has not been recognised as the group does not have an unconditional right to receive returns of contributions or refunds under the scheme rules.

9 Preliminary statement

The financial information set out above does not constitute the company's statutory financial statements for the years ended 31 March 2023 or 2022 but is derived from those financial statements. Statutory financial statements for 2022 have been delivered to the Registrar of Companies and those for 2023 will be delivered following the company's Annual General Meeting. The auditors have reported on those financial statements; their reports were unqualified, did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their reports and did not contain statements under Section 498 of the Companies Act 2006.

The annual report and financial statements will be posted to shareholders on 23 June 2023 and will be available on the company's website, www.castings.plc.uk, from 26 June 2023.

Appendix 1 - Principal Risks and Uncertainties

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

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

The group does not operate a formal internal audit function; however, risk management is overseen by senior management and group risk registers are maintained and regularly reviewed, alongside factors which may result in changes to risk assessments or require additional mitigation measures to be implemented.

External consultants are used to assess design and effectiveness of controls relating to IT security to provide specialist support to management in this area.

Key risks arising or increasing in impact are reviewed at both group and subsidiary board meetings.

The impact of each risk set out below has been described as increased, stable or decreased dependent upon whether the business environment and group activity has resulted in a change to the potential impact of that risk.

Several principal risks have been removed which have been key themes in the last few years. As the conditions of the United Kingdom's exit from the European Union seems to be largely concluded and the resulting changes embedded

United Kingdom's exit from the European Union seems to be largely concluded and the resulting changes embedded, it is no longer considered a principal risk to the business as a standalone issue. Similarly, with vaccination programmes largely successful in major markets, COVID-19 has also been removed as a principal risk. Both issues remain subject to review as part of the group's internal risk review process.

Risk description	Impact	Mitigation and control
Technological change		
Customers continue to invest in the development of electric and hydrogen powered vehicles to move away from internal combustion engines ('ICE'). The initial phase of this is focussed on passenger cars and smaller, short-range trucks which are not key markets for the group. However, the continued development of new technology does present a medium-term risk to the group as c. 30% of group revenue arises from the supply of cast iron powertrain components. It is important to note that such a change also presents an opportunity for the group to evolve its product offering, as has always been the case over the years.	**Stable** The group continues to work with key customers producing the next generation of ICE commercial vehicles, whilst monitoring opportunities for the future.	The strategic focus of the group is evaluated regularly through group board meetings. Consideration is given to what opportunities might be available within alternative light-weight metals (e.g aluminium), value added opportunities and also replacement technologies for heavy-duty trucks. The group's electricity contracts are fully Renewable Energy Guarantees of Origin ('REGO') backed and the gas contracts will be from 1 October 2023. This provides a platform for the group to support our customers Green Iron aspirations.
Operational and commercial		
The group's revenues are principally derived from the commercial vehicle markets which can be subject to variations in patterns of demand. Commercial vehicle sales are linked to technological factors (for example emissions legislation) and economic growth.	**Stable** The operational and commercial activity of the business is driven by customer demand. Demand has the potential to change rapidly dependent upon the significant variable factors in the macroeconomic environment such as conflict in Ukraine, supply chain issues or changing regulatory positions.	The group's operations are set up in such a way as to ensure that variation in demand can be accommodated and rapidly responded to. Demand is closely reviewed by senior management on a constant basis.
Market competition		
Commercial vehicle markets are, by their nature, highly competitive, which has historically led to deflationary pressure on selling prices. This pressure is most pronounced in cycles of lower demand. A number of the group's customers are also adopting global sourcing models with the aim to reduce bought-out costs.	**Stable** Erosion of market share could result in loss of revenue and profit.	Whilst there can be no guarantee that business will not be lost on price, we are confident that we can remain competitive. The group continues to mitigate this risk through investment in productivity, with a strong focus on cost and customer value.
Customer concentration, programme dependencies and relationships		
The group has relationships with key customers in the commercial vehicle market which form the majority of the customer base.	**Stable** The loss of, or deterioration in, any major customer relationship could have a material impact on the group's results.	We build strong relationships with our customers to develop products to meet their specific needs.
Product quality and liability		
The group's businesses expose it to certain product liability risks which, in the event of failure, could give rise to material financial liabilities.	**Stable** Fines or penalties could result in a loss of revenue, additional costs and reduced profits.	Whilst it is a policy of the group to endeavour to limit its financial liability by contract in all long-term agreements ('LTAs'), it is not always possible to secure such limitations in the absence of LTAs. The group's customers do require the maintenance of demanding quality systems to safeguard against quality-related risks and the group maintains appropriate external quality accreditations. The group maintains insurance for public liability-related claims but does not insure against the risk of product warranty or recall.
Foreign exchange		
The group is exposed to foreign exchange risk on both sales and purchases denominated in currencies other than sterling, being primarily euro and US dollar.	**Stable** The group is exposed to gains or losses that could be material to the group's financial results and can increase or decrease how competitive the group's pricing is to overseas markets.	The group's foreign exchange risk is well-mitigated through commercial arrangements with key customers. Foreign exchange rate risk is sometimes partially mitigated by using forward foreign exchange contracts. Such contracts are short term in nature, matched to contractual cash flows and non-speculative.
Equipment		
The group operates a number of specialist pieces of equipment, including foundry furnaces, moulding lines and CNC milling machines which, due to manufacturing lead times, would be difficult to replace sufficiently quickly to prevent major interruption and possible loss of business in the event of unforeseen failure.	**Stable** A large incident could disrupt business at the site affected and result in significant rectification costs or material asset impairments.	Whilst this risk cannot be entirely mitigated without uneconomic duplication of all key equipment, all key equipment is maintained to a high standard and inventories of strategic equipment spares maintained. The foundry facilities at Brownhills and Dronfield have similar equipment and work can be transferred from one location to another very quickly.

Suppliers		
The group holds long-standing relationships with key suppliers and there is a risk that a business which the group is critically dependent upon could be subject to significant disruption and that this could materially impact the operations of the group. There are specifically high risks of semi-conductor shortages in the supply chain, COVID-19 outbreaks, disruption because of the conflict in Ukraine or logistical delays.	**Stable** The risk of a supplier's business interruption remains very high due to the current global business environment.	Although the group takes care to ensure alternative sources of supply remain available for materials or services on which the group's businesses are critically dependent, this is not always possible to guarantee without risk of short-term business disruption, additional costs and potential damage to relationships with key customers. The group continues to maintain productive dialogue with key suppliers, working together to adjust to changes to the business environment.
Commodity and energy pricing		
The group is exposed to the risk of price inflation on raw materials and energy contracts. The principal metal raw materials used by the group's businesses are steel scrap and various alloys. The most important alloy raw material inputs are premium graphite, magnesium ferro-silicon, copper, nickel and molybdenum.	**Stable** Changes to the pricing of the group's commodity and energy purchases could materially impact the financial performance of the group if no mitigating actions were taken. Power and raw material markets have become very volatile because of the current conflict in Ukraine and other associated supply issues.	Wherever possible, prices and quantities (except steel) are secured through long-term agreements with suppliers. In general, the risk of price inflation of these materials resides with the group's customers through price adjustment clauses. Historically, energy contracts have been locked in for at least 12 months. With the volatile power market, following the end of our fixed price contract on 30 September 2022, the group entered into a flexible power agreement. When markets permit, it would be the intention to revert back to a fixed contract. Management has worked with customers during the course of the year to pass these costs through in a timely manner.
Information technology and systems reliability		
The group is dependent on its information technology ('IT') systems to operate its business efficiently, without failure or interruption. The group continues to invest in IT systems to aid in the operational performance of the group and its reporting capabilities. There are increasing global threats faced by these systems as a result of sophisticated cyberattacks.	**Stable** Significant failures to the IT systems of the group as a result of external factors could result in operational disruption and a negative impact on customer delivery and reporting capabilities.	Whilst data within key systems is regularly backed up and systems subject to virus protection, any failure of backup systems or other major IT interruption could have a disruptive effect on the group's business. IT projects are reviewed and approved at board level and the group continues to invest in IT security to improve our resilience and response towards such threats. The group engages with external specialists to regularly assess the security of the IT network and systems.
Regulatory and legislative compliance		
The group must comply with a wide range of legislative and regulatory requirements including modern slavery, anti-bribery and anti-competition legislation, taxation legislation, employment law and import and export controls.	**Stable** Failure to comply with legislation could lead to substantial financial penalties, business disruption, diversion of management time, personal and corporate liability and loss of reputation.	The group maintains a comprehensive range of policies, procedures and training programmes in order to ensure that both management and relevant employees are informed of legislative changes and it is clear how the group's business is expected to be carried out. Whistleblowing procedures and an open-door management style are in place to enable concerns to be raised and addressed. Specialist advice is made available to management when required to ensure that the group is up to date with changes in regulation and legislation.
Climate change		
The group's operations are energy-intensive and whilst the group considers that its businesses provide fundamental components and services which will prove resilient in a transition towards a net zero economy, the board recognises the group is likely to receive increased scrutiny in the future in relation to emissions and climate change.	**Stable** It is expected that green taxes on energy and the compliance cost of meeting developing reporting obligations for our stakeholders will result in increased energy prices and administrative expenses.	The working group, formed last year, continues to monitor and report on developments with regards to climate risk. As part of the renewal of energy contracts the group reviews whether investment in renewable energy sources would meet the group's investment criteria and such proposals will continue to be considered on their commercial merits. The group will continue to engage with and understand the needs of its stakeholders with regard to climate risk.
People risk		
The group's operations depend upon the availability of both skilled and unskilled labour to operate manual equipment and fulfil our strategic goals.	**Stable** The labour market has been extremely competitive during the year.	The group looks to provide safe, stable and long-term employment at competitive rates of pay. We invest in people development and

Inability to attract and retain talent could result in either a shortage of staff or a reduction in operating margins.	We invest in people development and utilise technology and productivity gains to ensure that our products remain competitively priced.

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