



**Albion Automotive Limited**  
**Registration Number SC144986**

**Annual Report  
and  
Financial Statements**

**Year Ended  
31 December 2016**

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**ALBION AUTOMOTIVE LIMITED**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

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**ALBION AUTOMOTIVE LIMITED**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2016**

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**Company Details**

Company Registration Number	SC144986
Registered Office	1187 South Street GLASGOW Scotland G14 0DT
Directors	M.K. Simonte G.J. McFarlane A.L. Satine O. Bongwald
Company Secretary	D.E. Barnes
Bankers	Citibank NA Citigroup Centre Canada Square London E14 5LB
Solicitors	MacRoberts LLP Capella 60 York Street Glasgow G2 8JX
Independent Auditor	Deloitte LLP Statutory Auditor 110 Queen Street Glasgow G1 3BX
Communications Advisor	Martin Hayes and Associates
Web site	<a href="http://www.aam.com">http://www.aam.com</a>

# **ALBION AUTOMOTIVE LIMITED**

## **ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2016**

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### **Corporate Statement**

Albion Automotive Limited is a niche supplier of automotive components, specialising particularly in the manufacture and assembly of truck, van and bus axles and vehicle and engine components.

We are the direct descendant of Albion Motors, the pioneering vehicle manufacturer founded in 1899. As such we embody a proud tradition of innovation, quality and customer service. Today, we have a skilled labour force, including an engineering capability and manufacturing facility in Glasgow.

Many of our customers are leading European producers of trucks, vans and buses.

Our aim is to develop and grow our business for the benefit of customers, suppliers, employees and shareholders alike.

# **ALBION AUTOMOTIVE LIMITED**

## **STRATEGIC REPORT**

### **FOR THE YEAR ENDED 31 DECEMBER 2016**

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#### **Review of Developments and Future Prospects**

Albion Automotive Limited (the “Company”) recorded a loss after taxation for the year of £3,523,000 (2015 – loss of £2,491,000). There are no further key performance indicators identified and presented in this report.

Over the last few years we have seen improvements throughout the automotive industry, despite difficult market conditions. A key strategic objective of the company is to continue to diversify the business and look at different markets for new business opportunities.

Overall sales decreased year on year by 32% due to the transfer box business ceasing at the start of 2016. Despite this the remaining truck business has remained steady during 2016. The loss of business has resulted in producing a gross loss of £640,000 (2015 gross profit £771,000).

During 2016 the Company continued to make further progress managing the overall cost structure. The Company is focused on lean manufacturing which is designed to reduce costs, improve quality, decrease inventory and improve our operating flexibility. Further planned improvements in cost structure will improve margins in future years. This allows the company to be more competitive and pursue new business in the truck and bus axle markets.

The Company pension asset in 2016 is £10,449,000 (2015 - £18,543,000) this is due in part to a ‘special contribution’ of £12,300,000 made in 2015 and also as a result of the current economic conditions and changes to assumptions as part of the valuation results as at 31 December 2016.

The £12,300,000 ‘special contribution’ made in 2015 covers past service deficit contributions for the next few years, keeping in line with the covenant agreed with the trustees and the pension regulator.

Research and development is an important part of the Company’s operations. These operations are carried out in pursuit of the development of new products, improved quality, competitiveness, performance and profitability. In 2016 research and development expenditure amounted to £495,000 (2015 - £532,000). We plan to continue to invest in the development of new products, processes and systems in order to improve efficiency and flexibility for our customers.

During 2016 the Company maintained the accreditation for ISO14001:2004 Environmental Management System and this has been continued into the first half of 2017.

# **ALBION AUTOMOTIVE LIMITED**

## **STRATEGIC REPORT**

### **FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**

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#### **Risks and Uncertainties**

The Company manufactures automotive components specialising particularly in the manufacture and assembly of truck, van and bus axles and vehicle and engine components.

There are a number of significant trends affecting the highly competitive automotive industry. As general and industry specific conditions have improved, intense competition, volatility in fuel, steel, metallic and other commodity prices and significant pricing pressures persist within the global automotive industry. At the same time the industry is intently focused on investing in future products that will incorporate the latest technology, meet changing customer demands and will comply with more stringent government regulations. The continued advancement of technology and product innovation, as well as having the capability to source programmes on a global basis, are critical to attracting and retaining business in todays automotive industry.

Although we continue to see improvements in the market there are risks due to political events, potential domestic or international terrorist events. Current events including the recent US presidential election and the UK's vote to leave the European Union create a level of uncertainty with potential changes on immigration policies, renegotiated trade deals and tax reform proposals. As we continue to look to expand our business we need to anticipate and effectively manage these and other risks.

The automotive industry is highly competitive in relation to technology, design, quality, delivery and cost. Some of our competitors have economic advantages compared to our business such as patents, existing underutilised capacity and lower wage and benefit costs through supply base consolidation and global sourcing. As a result of these pressures our business may be adversely affected if we do not sustain our ability to meet customer requirements relative to technology, design, quality, delivery and cost.

We are under continuing pressure by our customers to reduce our prices, which is a common practice in the automotive industry. The majority of our products are sold under long-term supply contracts and certain contracts require us to reduce our prices in subsequent years. If we must accommodate a customers demand for higher annual price reductions and are unable to offset the impact of any such reductions through continued technology improvements, cost reductions and other productivity initiatives our results of operations and financial condition could be adversely affected.

We look to mitigate some of these risks through the initiative of lean manufacturing business philosophy designed to facilitate cost reductions, improve quality, reduce inventory and improve our operating flexibility. This is whilst continued work toward requirements to meet tighter fuel efficiency emissions standards through more advanced innovation and design by meeting these through advanced product, process and systems technology.

**ALBION AUTOMOTIVE LIMITED**

**STRATEGIC REPORT**

**FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**


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**Going Concern**

As described further in the 'Principal accounting policies' section of the financial statements, on the basis of having received formal letter confirming ongoing ultimate parent company support for the next 12 months from signature of these financial statements, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Approved by the Board and signed on its behalf by

Director G McFarlane



Date:- 15 SEPTEMBER 2017

# **ALBION AUTOMOTIVE LIMITED**

## **DIRECTORS' REPORT**

### **FOR THE YEAR ENDED 31 DECEMBER 2016**

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The directors present their annual report and the audited financial statements of the Company for the year ended 31 December 2016.

#### **Principal Activities**

The Company's principal activities during the year to 31 December 2016 were the manufacture and assembly of truck, van and bus axles and vehicle and engine components.

#### **Dividends**

No dividends were paid or proposed during the year or prior year.

#### **Directors**

The directors of the Board who served during the year and to the date of this report are set out below:

M.K. Simonte

G.J. McFarlane

M.A. Bly (*resigned 29 June 2017*)

A.L. Satine

O Bongward (*appointed 1 April 2017*)

#### **Directors' Indemnities**

The Company has made qualifying third party provisions for the benefit of its directors which were in place during the year and remain in force at the date of this report.

#### **Future Developments; Risks and uncertainties**

The future developments and key risks and uncertainties for the company can be found in the strategic report.

#### **Employment of Disabled Persons**

The Company gives every consideration to applications for employment from handicapped or disabled persons who are able to meet the requirements of the job. Where an employee becomes disabled whilst employed by the Company every effort is made in order to re-settle that employee in a suitable post. The Company always endeavours to ensure that disabled employees benefit from training and career development programmes in common with all employees.



# **ALBION AUTOMOTIVE LIMITED**

## **DIRECTORS' REPORT**

### **FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**

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#### **Employee Involvement**

Good and effective employee communications is considered to be important and it is the Company's policy to promote the understanding and involvement of all its employees in the Company's business aims and performance.

Meetings are held on a regular basis to discuss the financial position and future prospects of the Company. Also at these meetings the opportunity is given to employees to question senior executives on matters that concern them.

#### **Financial Instruments**

The Company's principal financial assets are bank balances and trade debtors. The Company's credit risk is primarily attributable to its trade debtors. The amounts presented in the balance sheet are net of provisions for doubtful debts. The Company has a relatively concentrated credit risk, with exposure spread over a small number of customers with high credit-ratings assigned by international credit-rating agencies.

The Company's principal financial liabilities are trade creditors and amounts owed to the ultimate parent company in respect of which interest is applied at a variable rate linked to the Bank of England Base Rate.

In the normal course of business the Company obtains certain supplies and makes certain sales in Euros and US Dollars. The Company does not enter into forward currency contracts, although to manage the risk of foreign exchange movements, the US parent company enters into forward currency contracts in accordance with the group treasury and risk management policy.

#### **Independent Auditor**

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

- (1) so far as the director is aware, there is no relevant audit information as defined in the Companies Act 2006 of which the Company's auditor is unaware; and
- (2) the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

**ALBION AUTOMOTIVE LIMITED**

**DIRECTORS' REPORT**

**FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**

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Deloitte LLP, being eligible, offer themselves for reappointment in accordance with the transitional arrangements of the Companies Act 2006, following an elective resolution previously passed in accordance with section 386 of the Companies Act 1985.

Approved by the Board and signed on its behalf by

Director G McFarlane



Date:-

15 SEPTEMBER 2017

## **ALBION AUTOMOTIVE LIMITED**

### **DIRECTORS' RESPONSIBILITIES STATEMENT**

#### **FOR THE YEAR ENDED 31 DECEMBER 2016**

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The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ALBION AUTOMOTIVE LIMITED**

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We have audited the financial statements of Albion Automotive Limited for the year ended 31 December 2016 which comprise the Profit and Loss Account, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Principal Accounting Policies and the related notes 1 to 16. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS  
OF ALBION AUTOMOTIVE LIMITED (continued)**

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**Opinion on other matter prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Director's Report.

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



David Crawford CA (Senior Statutory Auditor)  
for and on behalf of Deloitte LLP  
Statutory Auditor  
Glasgow, United Kingdom

15/9/

2017

**ALBION AUTOMOTIVE LIMITED**

**PROFIT AND LOSS ACCOUNT**

**FOR THE YEAR ENDED 31 DECEMBER 2016**

	Note	2016 £000's	2016 £000's	2015 £000's	2015 £000's
<b>Turnover – continuing operations</b>	1		25,298		37,196
Cost of sales			(25,938)		(36,425)
<b>Gross (loss) / profit</b>			(640)		771
Distribution costs			(166)		(162)
Normal administrative expenses		(963)		(479)	
Exceptional administration expenses - Redundancy cost	2	-		(522)	
Total Administrative expenses			(963)		(1,001)
<b>Operating loss – continuing operations</b>			(1,769)		(392)
Net interest payable	3		(2,475)		(2,270)
Net pension finance income	14		721		171
<b>Loss on ordinary activities before taxation</b>			(3,523)		(2,491)
Tax on loss on ordinary activities	5		-		-
<b>Loss on ordinary activities after taxation for the year</b>			(3,523)		(2,491)

**STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016**

Loss on ordinary activities after taxation		(3,523)	(2,491)
Actuarial (losses) / gain relating to pension scheme	14	(8,069)	2,026
Total recognised losses relating to the year		(11,592)	(465)

The accompanying accounting policies and notes form an integral part of these financial statements.

# ALBION AUTOMOTIVE LIMITED

## BALANCE SHEET AT 31 DECEMBER 2016

	Note	2016 £000's	2015 £000's
<b>Fixed assets</b>			
Tangible assets	7	1,030	604
<b>Current assets</b>			
Stock	8	2,961	3,253
Debtors – due within one year	9	3,050	5,401
Cash at bank and in hand		3,257	3,421
		9,268	12,075
<b>Creditors:</b>			
Amounts falling due within one year	10	(89,290)	(87,653)
<b>Net current liabilities</b>		(80,022)	(75,578)
<b>Total assets less current liabilities</b>		(78,992)	(74,974)
<b>Provisions for liabilities</b>	11	(610)	(1,130)
<b>Net liabilities excluding pension cost</b>		(79,602)	(76,104)
<b>Pension asset</b>	14	10,449	18,543
<b>Net liabilities including pension cost</b>		(69,153)	(57,561)
<b>Capital and reserves</b>			
Called-up share capital		4,096	4,096
Profit and loss account		(73,249)	(61,657)
<b>Shareholders' deficit</b>		(69,153)	(57,561)

The financial statements of Albion Automotive Limited, registered number SC144986, were approved by the Board of Directors and authorised for issue on 15 SEPTEMBER 2017.

They were signed on its behalf by: \_\_\_\_\_

  
Director G McFarlane

The accompanying accounting policies and notes form an integral part of these financial statements.

**ALBION AUTOMOTIVE LIMITED**

**COMPANY STATEMENT OF CHANGES IN EQUITY AT 31 DECEMBER 2016**

	<b>Note</b>	<b>Share Capital £'000</b>	<b>Profit and loss account £'000</b>	<b>Total £'000</b>
<b>At 1 January 2014</b>		4,096	(61,192)	(57,096)
Loss for the year ended 31 December 2015		-	(2,491)	(2,491)
Actuarial gains on defined pension plan	14	-	2,026	2,026
<b>Total comprehensive income</b>		-	465	465
<b>At 1 January 2016</b>		4,096	(61,657)	(57,561)
Loss for the year ended 31 December 2016			(3,523)	(3,523)
Actuarial loss on defined pension plan	14		(8,069)	(8,069)
<b>Total comprehensive income</b>			(11,592)	(11,592)
<b>At 31 December 2016</b>		<u>(4,096)</u>	<u>(73,249)</u>	<u>(69,153)</u>



## **ALBION AUTOMOTIVE LIMITED**

### **PRINCIPAL ACCOUNTING POLICIES – 31 DECEMBER 2016**

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#### **Accounting policies**

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the prior year.

#### **General information and basis of accounting**

Albion Automotive Limited is a company incorporated in the United Kingdom under the Companies Act. The Company is a private Company limited by shares and is registered in Scotland. The address of the registered office is given on page 1. The nature of the company operations and its principal activities are set out in the directors' report on pages 6 to 8.

The functional currency of the Company is considered to be pounds sterling because it is the currency of the primary economic environment in which the Company operates.

As described within the strategic report, inherent uncertainties exist within the company's future projections, primarily in relation to future levels of demand related to production volumes from the Company's key customers. At 31 December 2016, the Company's liabilities exceeded its assets by £69.2 million (2015: £57.6m). The directors have received confirmation from the ultimate parent company, American Axle & Manufacturing Holdings Inc. ('AAM'), that any *necessary financial support will be provided to the company for a period of at least 12 months from the signing of these financial statements.*

Although inherent uncertainties also exist within the AAM group's future projections; particularly in relation to future levels of demand in production volumes from its two largest customers, General Motors and Chrysler - having considered forecast group results including possible sensitivities, the directors expect ongoing compliance with the AAM group's banking terms and conditions for the foreseeable future, and that the ultimate parent will continue to be able to provide financial support.

Albion Automotive Limited meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements. Exemptions have been taken in relation to share-based payments, financial instrument, presentation of a cash-flow statement, intra-group transactions and remuneration of key management personnel.

## **ALBION AUTOMOTIVE LIMITED**

### **PRINCIPAL ACCOUNTING POLICIES – 31 DECEMBER 2016 (Continued)**

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#### **Going Concern**

The company's business activities together with the factors likely to affect its future development, performance and position are set out in the business review which forms part of the Directors Report.

As the directors have received a letter of support from the ultimate parent company confirming ongoing support of the Company for 12 months from the signing of the financial statements it is a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

#### **Turnover**

Turnover represents the net invoiced value of goods sold during the year, stated net of value added tax and trade discounts.

#### **Tangible fixed assets**

Tangible fixed assets are recorded at cost less depreciation and any impairment. Depreciation is calculated to write down the cost less estimated residual value of all tangible fixed assets over their expected useful lives in equal annual instalments.

The periods generally applicable are:

Leasehold land and buildings	-	over the remaining life of the lease
Plant and equipment	-	charged systematically in accordance with usage on a machine hours basis, estimated to be over 15 years.
Tooling	-	over 3 years if short lived and 6 years if it is programme specific.

Assets in the course of construction are not depreciated until the asset is completed and brought into use. Provision is made for any impairment, which is recognised in the profit and loss account.

#### **Leased assets**

Assets acquired under finance leases are capitalised in the balance sheet and depreciated over the shorter of the lease term or their expected useful lives. The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the profit and loss account over the period of the lease.

## ALBION AUTOMOTIVE LIMITED

### PRINCIPAL ACCOUNTING POLICIES – 31 DECEMBER 2016 (Continued)

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#### **Leased assets (continued)**

Payments made under operating leases are charged to the profit and loss account on a straight line basis over the lease term

#### **Financial instruments**

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

##### *(i) Financial assets and liabilities*

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial assets and liabilities are only offset in the statement of financial position when, and only when there exists a legally enforceable right to set off the recognised amounts and the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Debt instruments which meet the following conditions are subsequently measured at amortised cost using the effective interest method:

- (a) The contractual return to the holder is (i) a fixed amount; (ii) a positive fixed rate or a positive variable rate; or (iii) a combination of a positive or a negative fixed rate and a positive variable rate.
- (b) The contract may provide for repayments of the principal or the return to the holder (but not both) to be linked to a single relevant observable index of general price inflation of the currency in which the debt instrument is denominated, provided such links are not leveraged.

## **ALBION AUTOMOTIVE LIMITED**

### **PRINCIPAL ACCOUNTING POLICIES – 31 DECEMBER 2016 (Continued)**

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#### **Financial instruments (continued)**

- (a) The contract may provide for a determinable variation of the return to the holder during the life of the instrument, provided that (i) the new rate satisfies condition (a) and the variation is not contingent on future events other than (1) a change of a contractual variable rate; (2) to protect the holder against credit deterioration of the issuer; (3) changes in levies applied by a central bank or arising from changes in relevant taxation or law; or (ii) the new rate is a market rate of interest and satisfies condition (a).
- (b) There is no contractual provision that could, by its terms, result in the holder losing the principal amount or any interest attributable to the current period or prior periods.
- (c) Contractual provisions that permit the issuer to prepay a debt instrument or permit the holder to put it back to the issuer before maturity are not contingent on future events, other than to protect the holder against the credit deterioration of the issuer or a change in control of the issuer, or to protect the holder or issuer against changes in levies applied by a central bank or arising from changes in relevant taxation or law.
- (d) Contractual provisions may permit the extension of the term of the debt instrument, provided that the return to the holder and any other contractual provisions applicable during the extended term satisfy the conditions of paragraphs (a) to (c).

Debt instruments that have no stated interest rate (and do not constitute financing transaction) and are classified as payable or receivable within one year are initially measured at an undiscounted amount of the cash or other consideration expected to be paid or received, net of impairment.

With the exception of some hedging instruments, other debt instruments not meeting these conditions are measured at fair value through profit or loss.

Commitments to make and receive loans which meet the conditions mentioned above are measured at cost (which may be nil) less impairment.

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the Group transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the Group, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

## **ALBION AUTOMOTIVE LIMITED**

### **PRINCIPAL ACCOUNTING POLICIES – 31 DECEMBER 2016 (Continued)**

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#### **Foreign currencies**

Transactions denominated in foreign currencies are converted into sterling at the rate ruling at the date of the transaction. Translation differences are taken to the profit and loss account. Amounts receivable or payable at the year-end are translated at the exchange rate ruling at the balance sheet date.

#### **Research and development**

Research expenditure is charged to the profit and loss account in the year in which it is incurred. All development costs are also charged to the profit and loss account in the year in which they are incurred.

#### **Warranty Provision**

The provision for warranty costs are based on a percentage of turnover and a number of years. This varies between customers as it is dependent on the terms of their contracts.

#### **Stock and work in progress**

Stock and work in progress is valued at the lower of cost or net realisable value. Cost comprises all expenditure incurred in purchasing or producing the stock and bringing it to its current state including an appropriate allocation of relevant production overheads. Provision is made for possible obsolescence or surplus stock by reference to predicted usage.

#### **Pensions**

Amounts charged to the profit and loss are the current service costs and any gains or losses on settlements and curtailments. They are included as part of staff costs. The interest cost and the expected return on assets are shown as net finance costs. Actuarial gains and losses are recognised immediately in the statement of comprehensive income.

The defined benefit plan is funded, with the assets of the plan held separately from those of the Company, in a separate trustee administered fund. Pension plan assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the plan liabilities.

## **ALBION AUTOMOTIVE LIMITED**

### **PRINCIPAL ACCOUNTING POLICIES – 31 DECEMBER 2016 (continued)**

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#### **Pensions (continued)**

The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit plan pension asset is presented on the balance sheet. The contribution levels have been determined by qualified actuaries and further details are available in Note 14 to the financial statements.

#### **Current taxation**

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

#### **Deferred tax**

In accordance with FRS 102, deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

#### **Government Grants**

Government grants are recognised on the accrual model and are measured at the fair value for the asset received or receivable. Grants are classified as relating either to revenue or to assets. Grants relating to revenue are recognised in income over the period in which the related costs are recognised. Grants relating to assets are recognised over the expected useful life of the asset. Where part of a grant relating to an asset is deferred, it is recognised as deferred income.

#### **Critical accounting judgements and key sources of uncertainty**

In the application of the company's accounting policies, which are described in the notes to the financial statements, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent in other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

## **ALBION AUTOMOTIVE LIMITED**

### **PRINCIPAL ACCOUNTING POLICIES – 31 DECEMBER 2016 (continued)**

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#### **Critical accounting judgements and key sources of uncertainty (continued)**

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The defined pension scheme assets are measured at current market value while the liabilities are estimated on assumptions as detailed in note 14.

# ALBION AUTOMOTIVE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2016

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#### 1. Turnover

Turnover relates to the manufacture and assembly of truck, van and bus axles and vehicle and engine components. Turnover is stated net of VAT. Turnover from the sale of goods are physically delivered to the customer.

The directors are of the opinion that there is only one class of business for the company.

	2016 £000's	2015 £000's
Turnover analysed by geographical market as follows		
UK	20,354	31,915
Exports	4,944	5,281
	<u>25,298</u>	<u>37,196</u>

#### 2. Loss on ordinary activities before taxation

	2016 £000's	2015 £000's
Loss on ordinary activities before taxation is stated after charging/(crediting):		
Auditor's remuneration		
- Fees payable to the Company's auditors for the audit of the Company's annual accounts	50	45
- Fees payable to the Company's auditors for taxation compliance services	10	9
- Other assurance services	4	-
Depreciation		
- Owned assets	473	1,500
Profit on disposal of tangible fixed assets	(69)	(14)
Operating lease rentals		
- Land and buildings	434	430
- Plant and equipment	142	152
Government grants received	(61)	(101)
Research and development costs	495	532
Exceptional Item – Redundancy costs	-	522
Inventory recognised as an expense	22,760	22,384
Stock written off	51	33

Included within the above figures incurred by the Company are audit fees for £3,000 (2015 - £3,000) and taxation compliance fees of £1,500 (2015 - £1,500) estimated to relate to the immediate parent company.



# ALBION AUTOMOTIVE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (continued)

### 3. Net Interest payable

	2016 £000's	2015 £000's
Interest receivable	(9)	(16)
Interest payable on group current activities	2,484	2,286
	<u>2,475</u>	<u>2,270</u>

### 4. Directors and employees

Certain directors are remunerated by the parent company, AAM International Holdings Inc. In the opinion of the directors it is not practical to separately apportion the emoluments relating to their services to Albion Automotive Limited.

The average number of employees (including executive directors) was:

	2016 Number	2015 Number
Production	103	148
Distribution	1	1
Administration	15	15
	<u>119</u>	<u>164</u>

This aggregate remuneration comprised

	2016 £000's	2015 £000's
Wages and salaries	3,509	5,218
Social security	331	402
Pension costs (Note 15)	282	206
	<u>4,122</u>	<u>5,826</u>

In addition to the above pension costs, an actuarial loss of £8,069,000 (2015 – actuarial gain of £2,026,000) has been recognised in the Statement of Comprehensive Income and a FRS102 net finance cost of £721,000 (2015 - £171,000) has been recognised in the profit and loss account (Note 15).

	2016 £000's	2015 £000's
Directors' remuneration was paid as follows:-		
Emoluments	<u>166</u>	<u>186</u>
Company contribution to defined benefit pension scheme	<u>4</u>	<u>4</u>

During the year one director (2015 – 1) participated in the company's defined benefit pension scheme. At the end of the year the director has accrued pension entitlement of £26,975 (2015 - £24,864).

**ALBION AUTOMOTIVE LIMITED****NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (continued)**

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**5. Tax on loss on ordinary activities**

There is no liability to corporation tax for the current year or for the prior year

	<b>2016</b> <b>£000's</b>	<b>2015</b> <b>£000's</b>
Loss before tax	(3,523)	(2,491)
Tax at 20% (2015 – 20.25%) thereon	(705)	(504)
Effects of:		
Expenses not deductible for tax purposes	5	27
Defined benefit pension adjustment	(607)	(1,054)
Depreciation in excess of capital allowances	95	304
Other timing differences	1,212	1,227
	<hr/>	<hr/>
Tax charge for the year	-	-
	<hr/>	<hr/>

A deferred tax asset amounting to £22.0 million (2015 £21.9 million) has not been recognised in respect of timing differences relating mainly to trading losses carried forward and accelerated capital allowances as there is insufficient evidence that the asset would be recovered if there are suitable future taxable profits against which the revenue losses can be offset or arising in the same period in which the asset on the accelerated capital allowances will crystallise.

**6. Dividends and other appropriations**

No dividends or appropriations were made in the year (2015: £ nil)

# ALBION AUTOMOTIVE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (continued)

### 7. Tangible fixed assets

	Leasehold Land and Buildings £000's	Plant and Equip- ment and Tooling £000's	Assets in course of constructi on £000's	Total £000's
Cost				
At 1 January 2016	182	19,418	4	19,604
Addition at cost	-	209	698	907
Transfers	-	4	(4)	-
Disposals	-	(2,894)	-	(2,894)
At 31 December 2016	182	16,737	698	17,617
Accumulated depreciation and impairment				
At 1 January 2016	177	18,823	-	19,000
Provided in year	5	468	-	473
Disposals	-	(2,886)	-	(2,886)
At 31 December 2016	182	16,405	-	16,587
Net book value at 31 December 2016	-	332	698	1,030
Net book value at 31 December 2015	5	595	4	604

### 8. Stocks

	2016 £000's	2015 £000's
Raw materials and consumable stores	1,872	1,954
Work in progress	636	742
Finished goods	453	557
	2,961	3,253

### 9. Debtors

Amounts due within one year:	2016 £000's	2015 £000's
Trade debtors	2,403	5,054
Amounts owed by ultimate parent company	289	90
Prepayments and accrued income	358	257
	3,050	5,401

# ALBION AUTOMOTIVE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (continued)

### 10. Creditors: amounts falling due within one year

	2016 £000's	2015 £000's
Trade creditors	1,014	1,339
Amounts owed by ultimate parent company	84,534	81,996
Amounts owed to group companies	2,483	2,483
Social security and other taxes	136	618
Accruals	1,123	1,217
	<u>89,290</u>	<u>87,653</u>

### 11. Provisions for liabilities

	2016 £000's	2015 £000's
<b>Redundancy Provision</b>		
Opening provision	522	-
Additional provision in the year	-	522
Provision utilised in the year	(522)	-
Provision (released) / accrued in the year	-	-
Closing Provision	<u>-</u>	<u>522</u>
<b>Warranty Provision</b>		
Opening provision	608	530
Additional provision in the year	377	484
Provision utilised in the year	(375)	(331)
Provision (released) / accrued in the year	-	(75)
Closing Provision	<u>610</u>	<u>608</u>
<b>Total provisions for liabilities</b>	<u>610</u>	<u>1,130</u>

The redundancy provision represented estimated costs in respect of the cessation of the transfer box business and has been utilised within one year of the balance sheet date.

The warranty provision represents estimated costs in respect of product rectification and is expected to be utilised within 3 years of the balance sheet date.

# ALBION AUTOMOTIVE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (continued)

### 12. Share capital

	2016 £000's	2015 £000's
<b>Called-up, allotted and fully paid</b>		
4,096,000 Ordinary shares of £1 each	4,096	4,096

The Company has one class of ordinary shares which carry no right to fixed income.

The Company's other reserves are as follows:

The profit and loss reserve represents cumulative profits or losses, net of dividends paid and other adjustments.

### 13. Leasing commitments

At 31 December 2016 the Company had annual commitments under non-cancellable operating leases as follows:

	<b>Land and Buildings</b>		<b>Plant and equipment</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
Expiring within one year	438	430	97	82
Expiring between two and five years inclusive	1,752	1,720	120	207
Later than five years	292	717	-	-
	<u>2,482</u>	<u>2,867</u>	<u>217</u>	<u>289</u>

## **ALBION AUTOMOTIVE LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (continued)**

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#### **14. Pension costs**

The Company operates the Albion Automotive Limited Pension Plan, a defined benefit pension plan for the benefit of its employees. The assets of the plan are administered by trustees in funds independent from those of the company. Pension costs are assessed in accordance with the advice of qualified actuaries.

The FRS 102 accounting and disclosure is based on an approximate projection of the plan's liabilities from the results of the formal valuation as at 31 March 2015, updated for:

- The plan assets values as at the accounting date;
- changes to the assumptions (and hence the FRS 102 liabilities) arising from market value movements;
- the estimated impact of increases to pensionable salaries and pensions in payment; and
- the level of contributions paid and other cash flows to the accounting date.

A full actuarial valuation was carried out at 31 March 2015 and updated to 31 December 2016 by a qualified independent actuary.

The Company introduced salary sacrifice for employee contributions. Under this arrangement the Company pays contributions on behalf of the members who elected to participate in this arrangement. In 2015 the Company paid £12,300,000 of pension contributions to cover to 31 December 2018 in advance, covering 4% of pensionable salaries. Members contribute as set out in the Plan's Rules.

Pension contributions under FRS 102 for the year ended 31 December 2016, amounted to £297,000 (2015 - £12,543,000).

**ALBION AUTOMOTIVE LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (continued)**

**14. Pension costs (cont'd)**

The main assumptions used by the actuary at the balance sheet date were as follows:

	<b>2016</b>	<b>2015</b>
Discount rate	2.70%	3.90%
Rate of salary increase	3.45%	3.30%
Rate of increase of pensions in payment (LPI 3.0%)	2.50%	2.40%
Rate of increase of pensions in payment (LPI 5.0%)	3.15%	3.00%
Rate of increase of pensions to deferment	1.95%	1.85%
Inflation	3.20%	3.05%

<b>Mortality Assumptions</b>	<b>2016</b>	<b>2015</b>
	<b>Years</b>	<b>Years</b>
Males – non pensioners	23.1	23.0
Males – pensioners	21.4	21.3
Female – non pensioners	26.4	26.3
Female – pensioners	24.5	24.4

The amount included in the balance sheet arising from the company's obligations in respect of its defined benefit pension plan is as follows:

	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>
		<b>As restated</b>
Present value of defined benefit obligations	(111,659)	(86,811)
Fair value of the plan assets	122,108	105,354
Surplus	10,449	18,543
Net Asset recognised in the balance sheet	10,449	18,543

# ALBION AUTOMOTIVE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (continued)

### 14. Pension costs (cont'd)

#### Plan assets

The weighted –average asset allocation at the year end was as follows:

Asset category	2016 %	2015 %
Equities	40%	36%
Bonds & Cash (blended rate)	60%	64%
Total	100%	100%

Fair Value of Assets	2016 £000's	2015 £000's
Domestic Equities	10,463	7,980
Overseas Equities	27,535	20,138
UK fixed interest	43,495	27,864
Index linked government bonds	19,756	22,734
Corporate Bonds	6,408	4,107
Cash / Net current assets	199	12,498
Property	6,007	5,855
Hedging Instruments	4,224	4,178
Structured credit	4,021	-
Total	122,108	105,354



**ALBION AUTOMOTIVE LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (continued)**

**14. Pension Costs (cont'd)**

	<b>2016</b>	<b>2015</b>
	<b>£'000's</b>	<b>£'000's</b>
<b>Change in benefit obligation</b>		
Benefit obligation at beginning of year	86,811	90,184
Current service cost	641	753
Interest cost	3,321	3,282
Member contributions	8	11
Actuarial losses	24,189	(4,449)
Benefits paid	(3,311)	(2,967)
	<u>111,659</u>	<u>86,811</u>
Benefit obligation at year end		
	<u>111,659</u>	<u>86,811</u>
	<b>2016</b>	<b>2015</b>
	<b>£'000's</b>	<b>£'000's</b>
<b>Change in Plan assets</b>		
Fair value of Plan assets at beginning of year	105,354	94,629
Interest Income	4,042	3,453
Administrative Expenses	(402)	108
Actuarial gains	16,120	(2,423)
Employer contributions	297	12,543
Member contributions	8	11
Benefits paid	(3,311)	(2,967)
	<u>122,108</u>	<u>105,354</u>
Fair value of Plan assets at year end		
	<u>122,108</u>	<u>105,354</u>

## ALBION AUTOMOTIVE LIMITED

### NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (continued)

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#### 14. Pension costs (cont'd)

The expected rate of return on plan assets is the average rate of return expected over the remaining life of the related obligation on the actual assets held by the Plan. It includes both income and changes in fair value but is net of plan investment expenses. It is based on market expectations at the beginning of the reporting year. This assumption is used to determine the expected return on assets for the pension expense.

Amounts recognised in the profit and loss account in respect of the defined benefit pension scheme are as follows

	2016 £000's	2015 £000's
<b>Components of pension cost</b>		
Current service cost	641	750
Net Interest	(721)	(171)
Administration expenses	402	(108)
	<hr/>	<hr/>
Total pension cost recognised in the P&L account	322	471
	<hr/>	<hr/>
Actuarial (gain) / loss immediately recognised	8,069	(2,026)
	<hr/>	<hr/>
Total pension cost recognised in the SOCI	8,069	(2,026)
	<hr/>	<hr/>

The estimated amounts of contributions expected to be paid during the 2017 financial year is £250,000.

## **ALBION AUTOMOTIVE LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (continued)**

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#### **15. Transactions with related parties**

As a wholly owned subsidiary of Albion Automotive (Holdings) Limited, the Company is exempt from the requirements of Section 33 of Financial Reporting Standard 102 (FRS 102) to disclose transactions with other members of the group headed by Albion Automotive (Holdings) Limited and with other members of the group incorporating its holding company, American Axle & Manufacturing Holdings Inc.

#### **16. Controlling related party**

The ultimate parent undertaking of the Company and its controlling related party is American Axle & Manufacturing Holdings Inc., a company registered in the USA. American Axle & Manufacturing Holdings Inc. heads the largest and smallest group preparing consolidated accounts including the results of the Company. These consolidated accounts are available from its offices at 1 Dauch Drive, Detroit, Michigan, USA.

The immediate parent undertaking of the Company, by virtue of owning the Company's entire share capital, is Albion Automotive (Holdings) Limited, a company registered in the United Kingdom. The registered address is 1187 South Street, Glasgow, Scotland, G14 0DT.

66% of the issued share capital of Albion Automotive (Holdings) Limited is pledged to JP Morgan Chase Bank, N.A. in accordance with AAM's credit facility.