



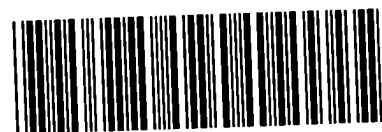
Albion Automotive Limited

Registration Number SC144986

**Annual Report
and
Financial Statements**

**Year Ended
31 December 2017**

THURSDAY



SCT *S7FDHJS1* #29
27/09/2018
COMPANIES HOUSE

ALBION AUTOMOTIVE LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

INDEX	PAGE
Company Details	1
Corporate statement	2
Strategic Report	3 - 5
Directors' report	6 - 8
Directors' responsibilities statement	9
Independent auditor's report to the members of Albion Automotive Limited	10 - 12
Profit and loss account	13
Statement of comprehensive income	13
Balance sheet	14
Company statement of changes in equity	15
Principal accounting policies	16 - 22
Notes to the financial statements	23 – 34

ALBION AUTOMOTIVE LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

Company Details

Company Registration Number	SC144986
Registered Office	Albion Plant South Street Scotstoun Glasgow 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 United Kingdom G1 3BX
Communications Advisor	Martin Hayes and Associates
Web site	http://www.aam.com

ALBION AUTOMOTIVE LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

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 2017

Review of Developments and Future Prospects

Albion Automotive Limited recorded a loss after taxation for the year of £5,249,000 (2016 – loss of £3,523,000).

The key strategic objective of the company is to diversify the business and look to new markets. To achieve this in 2017, £1,900,000 was invested in equipment and facilities to produce components for electric vehicles for which the company received its first order. This and further investment in 2018 of £1,800,000 will allow continued growth for the company into the future.

The overall sales increased year on year by 8% due to a different mix of the truck business in 2017. Despite this, in 2017 a gross loss of £2,285,000 is recorded (2016 gross loss £640,000). This is due in part to a settlement charge of £885,000 in relation to the enhanced transfer value (ETV) and trivial commutation exercise for the pension plan.

During 2017 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. Some of this has been achieved through the ultimate parent company with their support and global footprint. This allows the company to be more competitive and pursue new business in the truck and bus axle markets.

The Company pension asset in 2017 is £13,891,000 (2016 - £10,449,000) this is due to the 'special contribution' of £12,300,000 made in 2015 to cover past service deficit contributions for the next few years. A result of the current economic conditions and changes to assumptions as part of the valuation results as at 31 December 2017 and in addition to this the ETV and trivial commutation exercise carried out during the year which resulted in settlements out of the plan amounting to £10,738,000.

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 2017 research and development expenditure amounted to £631,000 (2016 - £495,000). 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 2017 the Company maintained the accreditation for ISO14001:2004 Environmental Management System and this has been continued into the first half of 2018. This is now covered under the ultimate parent company certification.

ALBION AUTOMOTIVE LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

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 Tax Cuts and Jobs Act 2017 and the Organisation for Economic Co-operation and Development is looking at reforming of longstanding corporate tax laws and treaties which could have an adverse impact being part of a large multinational company. 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 2017 (CONTINUED)

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 based on the long term trading and support of the parent company.

Approved by the Board and signed on its behalf by



Director G J McFarlane

Date:- 17 SEPTEMBER 2018

ALBION AUTOMOTIVE LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2017

The directors present their annual report and the audited financial statements of the Company for the year ended 31 December 2017.

Principal Activities

The Company's principal activities during the year to 31 December 2017 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

A.L. Satine

O. Bongwald

M.J. Bly (Resigned 29 June 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. This also includes all Directors from the parent company.

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 2017 (CONTINUED)

Research and Development

Details of research and development can be found in the Strategic report on page 3 and form part of this report by cross reference.

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.

ALBION AUTOMOTIVE LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

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.

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 J McFarlane*



Date:- 17 SEPTEMBER 2018

ALBION AUTOMOTIVE LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2017

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, subject to any material departures disclosed and explained in the financial statements; 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

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Albion Automotive Limited, (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account;
- the statement of comprehensive income ;
- the balance sheet;
- the statement of changes in equity;
- the principle 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, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs(UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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

We have nothing to report in respect of these matters.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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

Report on other legal and regulatory requirements

Opinions on other matters 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 the 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 directors' report.

Matters on which we are required to report by exception

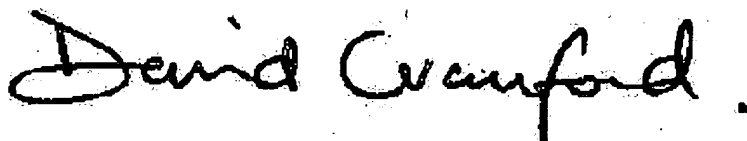
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- 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.

We have nothing to report in respect of these matters.

Use of our report

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.



David Crawford CA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
Glasgow, United Kingdom
24 September 2018

ALBION AUTOMOTIVE LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2017

	<u>Note</u>	<u>2017</u> <u>£000's</u>	<u>2016</u> <u>£000's</u>
Turnover	1	27,389	25,298
Cost of sales		(29,674)	(25,938)
Gross (loss)		<u>(2,285)</u>	<u>(640)</u>
Distribution costs		(188)	(166)
Administrative expenses		(878)	(963)
Operating loss		<u>(3,351)</u>	<u>(1,769)</u>
Net interest payable	3	(2,179)	(2,475)
Net pension finance income	14	281	721
Loss before taxation		<u>(5,249)</u>	<u>(3,523)</u>
Tax on loss	5	-	-
Loss after taxation for the year		<u><u>(5,249)</u></u>	<u><u>(3,523)</u></u>

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

Loss on ordinary activities after taxation		(5,249)	(3,523)
Actuarial gain / (losses) relating to pension scheme	14	4,895	(8,069)
Total recognised losses relating to the year		<u><u>(354)</u></u>	<u><u>(11,592)</u></u>

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


ALBION AUTOMOTIVE LIMITED

BALANCE SHEET AS AT 31 DECEMBER 2017

	<u>Note</u>	<u>2017</u> <u>£000's</u>	<u>2016</u> <u>£000's</u>
Fixed assets			
Tangible assets	7	2,401	1,030
Current assets			
Stock	8	2,591	2,961
Debtors – due within one year	9	3,205	3,050
Cash at bank and in hand		1,612	3,257
		<u>7,408</u>	<u>9,268</u>
Creditors:			
Amounts falling due within one year	10	(92,586)	(89,290)
Net current liabilities		<u>(85,178)</u>	<u>(80,022)</u>
Total assets less current liabilities		<u>(82,777)</u>	<u>(78,992)</u>
Provisions for liabilities	11	(621)	(610)
Pension asset	14	13,891	10,449
Net liabilities		<u>(69,507)</u>	<u>(69,153)</u>
Capital and reserves			
Called up share capital		4,096	4,096
Profit and loss account		(73,603)	(73,249)
Shareholders' deficit		<u>(69,507)</u>	<u>(69,153)</u>

The financial statements of Albion Automotive Limited, registered number SC144986, were approved by the Board of Directors and authorised for issue on 17 SEPTEMBER 2018.

They were signed on its behalf by: _____


Director G J 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 2017

	Note	Share Capital	Profit and loss account	Total
		£'000	£'000	£'000
At 1 January 2016		<u>4,096</u>	<u>(61,657)</u>	<u>(57,561)</u>
Loss for the year ended 31 December 2016		-	(3,523)	(3,523)
Actuarial losses on defined pension plan		-	(8,069)	(8,069)
Total comprehensive loss		<u>-</u>	<u>(11,592)</u>	<u>(11,592)</u>
At 1 January 2017		<u>4,096</u>	<u>(73,249)</u>	<u>(69,153)</u>
Loss for the year ended 31 December 2017		-	(5,249)	(5,249)
Actuarial gain on defined pension plan	14	-	4,895	4,895
Total comprehensive loss		<u>-</u>	<u>(354)</u>	<u>(354)</u>
At 31 December 2017		<u><u>(4,096)</u></u>	<u><u>(73,603)</u></u>	<u><u>(69,507)</u></u>

ALBION AUTOMOTIVE LIMITED

PRINCIPAL ACCOUNTING POLICIES – 31 DECEMBER 2017

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

The financial statements have been prepared under the historical cost convention, and in accordance with Financial Reporting Standard 102 (FRS102) issued by the Financial Reporting Council.

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 2017, the Company's liabilities exceeded its assets by £69.5 million (2016: £69.2m). 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 2017 (Continued)

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 – 5 years.
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 2017 (Continued)

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 2017 (Continued)

Financial instruments (continued)

- (c) 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).
- (d) 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.
- (e) 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.
- (f) 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 2017 (Continued)

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 2017 (continued)

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 2017 (continued)

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 being used to generate investment returns relative to the schemes liabilities. They are a key source of estimation due to the uncertainty and fluctuations of the market. At the year end these assets have been measured at current market value. The liabilities of the scheme are estimated on assumptions as detailed in note 14.

ALBION AUTOMOTIVE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

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.

	2017 £000's	2016 £000's
Turnover analysed by geographical market as follows		
UK	22,726	20,354
Exports (17%)	4,663	4,944
	<u>27,389</u>	<u>25,298</u>

2. Loss on ordinary activities before taxation

	2017 £000's	2016 £000's
Loss on ordinary activities before taxation is stated after charging/(crediting):		
Auditor's remuneration		
- Fees payable to the Company's auditor for the audit of the Company's annual accounts	50	50
- Fees payable to the Company's auditor for taxation compliance services	12	10
- Other assurance services	4	4
Depreciation		
- Owned assets	187	473
Loss /(Profit) on disposal of tangible fixed assets	10	(69)
Operating lease rentals		
- Land and buildings	454	434
- Plant and equipment	134	142
Government grants received	-	(61)
Research and development costs	631	495
Inventory recognised as an expense	25,247	22,760
Stock written off	22	51

Included within the above figures incurred by the Company are audit fees for £3,000 (2016 - £3,000) and taxation compliance fees of £1,500 (2016 - £1,500) estimated to relate to the immediate parent company.

Government grant income in 2016 was for R&D through Innovate UK.

ALBION AUTOMOTIVE LIMITED

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2017(continued)

3. Net Interest payable

	2017	2016
	£000's	£000's
Interest receivable	(2)	(9)
Interest payable on group current activities	2,181	2,484
	<u>2,179</u>	<u>2,475</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:

	2017	2016
	Number	Number
Production	104	103
Distribution	1	1
Administration	11	15
	<u>116</u>	<u>119</u>

This aggregate remuneration comprised

	2017	2016
	£000's	£000's
Wages and salaries	3,837	3,509
Social security	380	331
Pension costs (Note 14)	205	297
	<u>4,422</u>	<u>4,137</u>

In addition to the above pension costs, an actuarial gain of £4,895,000 (2016 – actuarial loss of £8,069,000) has been recognised in the Statement of Comprehensive Income and a FRS102 net finance cost of £281,000 (2016 - £721,000) has been recognised in the profit and loss account (Note 14).

	2017	2016
	£000's	£000's
Directors' remuneration was paid as follows:-		
Emoluments	<u>178</u>	<u>166</u>
Company contribution to defined benefit pension scheme	<u>4</u>	<u>4</u>

During the year one director (2016 – 1) participated in the company's defined benefit pension scheme. At the end of the year the director has accrued pension entitlement of £29,366 (2016 £26,975).

ALBION AUTOMOTIVE LIMITED

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2017 (continued)

5. Tax on loss on ordinary activities

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

	2017	2016
	£000's	£000's
Loss before tax	(5,249)	(3,523)
Tax at 19.25% (2016 – 20%) thereon	(1017)	(705)
Effects of:		
Expenses not deductible for tax purposes	134	5
Defined benefit pension adjustment	(480)	(607)
Depreciation in excess of capital allowances	36	95
Other timing differences	1,320	1,212
Tax charge for the year	<u>-</u>	<u>-</u>

A deferred tax asset amounting to £22.3 million (2016 £22.0 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.

Finance (No.2) Act 2015 and Finance Act 2016 enacted reductions in the UK corporation tax rate to 19% with effect from 1 April 2017 and 17% with effect from 1 April 2020, respectively. These rate reductions have been reflected in the calculation of corporation tax at the Balance Sheet date.

6. Dividends and other appropriations

No dividends or appropriations were made in the year (2016: £ nil)

ALBION AUTOMOTIVE LIMITED

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2017 (continued)

7. Tangible fixed assets

	Leasehold Land and Buildings <u>£000's</u>	Plant and Equipment and Tooling <u>£000's</u>	Assets in course of construction <u>£000's</u>	Total <u>£000's</u>
Cost				
At 1 January 2017	182	16,737	698	17,617
Addition at cost	-	-	1,558	1,558
Transfers	-	175	(175)	-
Disposals	-	(1,577)	-	(1,577)
At 31 December 2017	182	15,335	2,081	17,598
Accumulated depreciation and impairment				
At 1 January 2017	182	16,405	-	16,587
Provided in year	-	187	-	187
Disposals	-	(1,577)	-	(1,577)
At 31 December 2017	182	15,015	-	15,197
Net book value at 31 December 2017	-	320	2,081	2,401
Net book value at 31 December 2016	-	332	698	1,030

8. Stocks

	2017 <u>£000's</u>	2016 <u>£000's</u>
Raw materials and consumable stores	1,724	1,872
Work in progress	391	636
Finished goods	476	453
	2,591	2,961

9. Debtors

Amounts due within one year:	2017 <u>£000's</u>	2016 <u>£000's</u>
Trade debtors	2,708	2,403
Amounts owed by ultimate parent company	49	289
Prepayments and accrued income	448	358
	3,205	3,050

ALBION AUTOMOTIVE LIMITED

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2017 (continued)

10. Creditors: amounts falling due within one year

	2017 £000's	2016 £000's
Trade creditors	1,346	1,014
Amounts owed by ultimate parent company	86,498	84,534
Amounts owed to group companies	2,483	2,483
Amounts owed to Bank	1,000	-
Social security and other taxes	326	136
Accruals	933	1,123
	<u>92,586</u>	<u>89,290</u>

11. Provisions for liabilities

	2017 £000's	2016 £000's
Redundancy Provision		
Opening provision	-	522
Additional provision in the year	162	-
Provision utilised in the year	-	(522)
Provision released in the year	-	-
Closing Provision	<u>162</u>	<u>-</u>
Warranty Provision		
Opening provision	610	608
Additional provision in the year	153	377
Provision utilised in the year	(188)	(375)
Provision (released) / accrued in the year	(116)	-
Closing Provision	<u>459</u>	<u>610</u>
Total provisions for liabilities	<u>621</u>	<u>610</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 2017 (continued)

12. Share capital

	2017 £000's	2016 £000's
Called up, allotted and fully paid		
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 2017 the Company had total future minimum lease payments under non-cancellable operating leases as follows:

	Land and Buildings	Plant and equipment
	2017	2016
	£000's	£000's
Within one year	454	134
Between two and five years inclusive	1,665	140
Later than five years	-	-
	<u>2,119</u>	<u>274</u>
	<u>2,482</u>	<u>217</u>

ALBION AUTOMOTIVE LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (continued)

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 2017 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 2017, amounted to £205,000 (2016 - £297,000).

The Company along with the trustees of the plan has over the past few years been looking at the management of the overall liability of the plan and ways in which to reduce this risk going forward. As part of this ongoing process a trivial commutation and enhanced transfer valuation (ETV) exercise were completed during the year. Although the cost of this exercise was £885,000 to the Company the benefit is for future years as there was a really good response to the two exercises which resulted in settlements out of the plan amounting to £10,738,000.

ALBION AUTOMOTIVE LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (continued)

14. Pension costs (continued)

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

	2017	2016
Discount rate	2.70%	2.70%
Rate of salary increase	3.40%	3.45%
Rate of increase of pensions in payment (LPI 3.0%)	2.50%	2.50%
Rate of increase of pensions in payment (LPI 5.0%)	3.10%	3.15%
Rate of increase of pensions to deferment	1.90%	1.95%
Inflation	3.20%	3.20%

Mortality Assumptions	2017	2016
	Years	Years
Males – non pensioners	23.1	23.1
Males – pensioners	21.4	21.4
Female – non pensioners	26.5	26.4
Female – pensioners	24.6	24.5

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

	2017	2016
	£'000	£'000
Present value of defined benefit obligations	101,466	111,659
Fair value of the plan assets	115,357	122,108
Surplus	13,891	10,449
Net Asset recognised in the balance sheet	13,891	10,449

ALBION AUTOMOTIVE LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (continued)

14. Pension costs (continued)

Plan assets

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

Asset category	2017 %	2016 %
Equities	29%	40%
Bonds & Cash (blended rate)	71%	60%
Total	100%	100%

Fair Value of Assets	2017 £'000	2016 £'000
Domestic Equities	9,611	10,463
Overseas Equities	23,624	27,535
UK fixed interest	61,301	43,495
Index linked government bonds	-	19,756
Corporate Bonds	5,579	6,408
Cash / Net current assets	764	199
Property	6,570	6,007
Hedging Instruments	3,449	4,224
Structured credit	4,459	4,021
Total	115,357	122,108

ALBION AUTOMOTIVE LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (continued)

14. Pension Costs (continued)

	2017	2016
	£'000	£'000
Change in benefit obligation		
Benefit obligation at beginning of year	111,659	86,811
Current service cost	753	641
Loss on settlements	885	-
Interest cost	2,846	3,321
Member contributions	8	8
Settlement Payments	(10,738)	-
Actuarial losses	(833)	24,189
Experience Adjustment	62	-
Benefits paid	(3,176)	(3,311)
	<u>101,466</u>	<u>111,659</u>
Benefit obligation at year end		
	<u>101,466</u>	<u>111,659</u>
	2017	2016
	£'000	£'000
Change in Plan assets		
Fair value of Plan assets at beginning of year	122,108	105,354
Interest Income	3,127	4,042
Administrative Expenses	(301)	(402)
Settlement payments from the plan	(10,738)	-
Actuarial gains	4,124	16,120
Employer contributions	205	297
Member contributions	8	8
Benefits paid	(3,176)	(3,311)
	<u>115,357</u>	<u>122,108</u>
Fair value of Plan assets at year end		
	<u>115,357</u>	<u>122,108</u>

ALBION AUTOMOTIVE LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (continued)

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

	2017	2016
Components of pension cost	£'000	£'000
Current service cost	753	641
Loss on settlements	885	-
Net Interest	(281)	(721)
Administration expenses	301	402
	<hr/>	<hr/>
Total pension cost recognised in the P&L account	1,658	322
	<hr/>	<hr/>
Actuarial (gain) / loss immediately recognised	4,895	8,069
	<hr/>	<hr/>
Total pension cost recognised in the SOCI	4,895	8,069
	<hr/>	<hr/>

The estimated amounts of contributions expected to be paid during the 2018 financial year is £188,000.

ALBION AUTOMOTIVE LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017 (continued)

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 registered offices for all groups 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.

“q”

“q”