Carclo

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Carclo plc
Annual Report and Accounts 2023
Company number 196249

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Our performance

Revenue from continuing operations (£m)

£143.4m

2022:
£128.6m

Underlying operating profit[1] (£m)

£5.9m

2022:
£6.1m

Underlying earnings per share - basic - from continuing operations (p)

0.4p

2022:
3.1p

Underlying EBITDA[2] (£m)

£14.0m

2022:
£13.1m

Statutory operating profit (£m)

£1.2m

2022:
£8.9m

Cash generated from operations (£m)

£7.8m

2022:
£6.8m

Net debt excluding lease liabilities (£m)

£22.5m

2022:
£21.5m

Net debt (£m)

£34.4m

2022:
£32.4m

Financial performance

A shift in strategy prioritising operational performance improvement and increased cash generation against a backdrop of high inflation and rising interest rates.

- Revenue from continuing operations increased by 11.6% (3.8% at constant currency) to £143.4 million (2021/22: £128.6 million).
- Underlying operating profit from continuing operations £5.9 million (2021/22: £6.1 million).

Cash generated from operations was £7.8 million
(2021/22: £6.8 million).

Statutory operating profit from continuing operations £1.2 million
(2021/22: £8.9 million including £2.1 million one-off credit arising from the forgiveness of US government COVID-19 support loans).

Net exceptional cost in the year of £4.7 million
(2021/22: £0.7 million gain), reflects £3.4 million rationalisation costs, £0.9 million costs arising from cancellation of future supply agreement, £0.9 million doubtful debt and related inventory provision, £0.3 million costs in respect to legacy claims, partially offset by a £0.8 million gain on disposal of surplus properties.

Net debt of £34.4 million
(31 March 2022: £32.4 million). £1.5 million of the increase is explained by movements in foreign exchange. After increasing in H1, adjusting for currency effects, net debt reduced by £2.1 million during H2, reflecting the start of the delivery of the revised strategy.

1. Underlying operating profit is defined as operating profit before discontinued operations, separately disclosed items and exceptional items. A reconciliation to statutory figures is given on pages 199 and 200.
2. Underlying earnings before interest, taxation, depreciation and amortisation ("uEBITDA") is defined as EBITDA before discontinued operations, separately disclosed items and exceptional items. A reconciliation to statutory figures is given on pages 199 to 200.

Our performance continued

Strategic highlights

Fortifying our financial position for long-term success
Optimising resources, enhancing cash flow, and fuelling long-term success.

Factory specialisation and standardisation
Driving operational excellence for enhanced efficiency and satisfaction.

Organic growth through strategic partners
Strengthening relationships for mutual success.

Embracing sustainability for a greener future
Innovating, reducing waste and driving positive environmental impact.

Empowering unity, driving breakthroughs
Harnessing the power of collaboration, diversity and common purpose to redefine industry standards.
See more on page 12

Sustainability highlights

Leading the way in sustainability
Launching of a worldwide initiative "Project Zelda" (Carclo's landmark sustainability initiative) to harness our power to reduce waste, increase energy efficiency and contribute to a greener, more sustainable world and create a positive societal ripple effect via local community involvement.

Strengthening supply chain sustainability
Uniting with EcoVadis to prioritise sustainability, foster eco-friendly supply chain practices, and drive positive environmental change.

Engaging communities, creating lasting social value
Investing in local communities, fostering social inclusion and supporting initiatives that contribute to long-term societal wellbeing.
See more on page 28

'One Carclo'

'One Carclo' embodies our cohesive approach to achieving excellence by uniting our mission, ambition and values. Driven by innovation, collaboration and sustainability, we strive to create high-quality solutions for global industries, fostering growth and delivering value to our stakeholders.

Our mission and ambition

Our mission is to be the preferred and trusted partner of global customers for precision components. We strive to achieve class-leading customer satisfaction by taking advantage of our global presence and technical excellence centres.

We focus our Design & Engineering and Manufacturing Solutions on four key markets:

Speciality Optics
Speciality Aerospace
Life Science
Precision Tech

We are committed to delivering high-precision critical components that meet our customers' needs, as a one-stop-shop from the start of development through to production and assembly. We will facilitate growth by expanding our offerings with existing customers and by prioritising their development.

Our values

We seek a better way

We are driven by the desire for continuous improvement, striving to make tomorrow better and safer than today. We value and foster our entrepreneurial spirit, as we explore new avenues and push beyond existing boundaries.

We operate as 'One Carclo'

We believe in being united in collaboration, with both our team and our chosen strategic partners, to drive improvements and success.

We are always open and honest

We work with the highest ethics, seeking to be open, transparent, respectful and inclusive in all of our dealings both internally and externally.

We drive long-term sustainable growth

We prioritise sustainability and are committed to ethical labour practices, diversity and community engagement to reduce our environmental impact and create a positive social impact for long-term success.

We will always act responsibly

Responsible financial management ensures that we can continue to invest in sustainable growth opportunities and deliver value for our stakeholders.

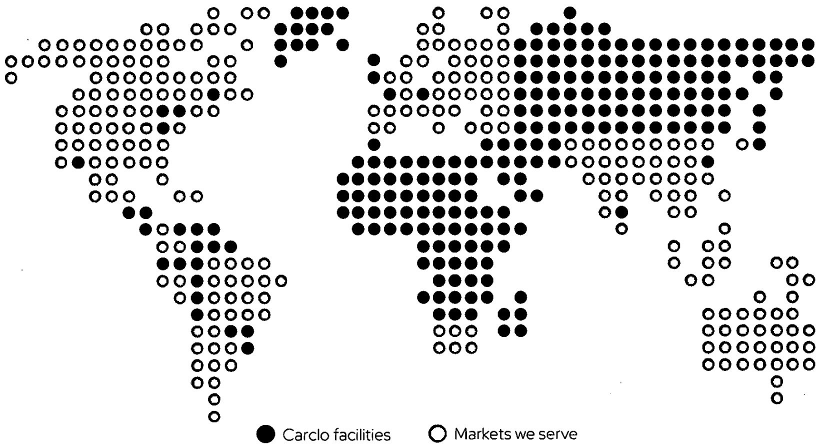
At a glance

Carclo's global presence spans 13 facilities in key markets, accounting for 70% of the world's core product demand. As a preferred, trusted partner, we prioritise employee safety, growth and training, to drive our continued success.

Our locations:

13 sites

1,116 employees



At a glance continued

Explore Carclo's thriving business segments: CTP Division and Aerospace Division where precision, quality and innovation unite these dynamic divisions. From advanced tooling and automation in design & engineering to specialised manufacturing solutions, and cutting-edge aerospace solutions, we deliver excellence across our global portfolio.

Performance by division:

Design & Engineering	Manufacturing Solutions	Aerospace
£20.1m	£116.7m	£6.6m
Revenue | -29.7% at constant currency	**Revenue | +11.3% at constant currency**	**Revenue | +39.4% at constant currency**

Businesses:

Design & Engineering

Manufacturing Solutions

Aerospace

CTP

Carclo, a global leader in precision components, demonstrates unwavering commitment to exceptional quality in high-tech industries. With expertise spanning life sciences, aerospace and technical precision components, Carclo establishes a formidable presence in key markets worldwide. The Life Sciences sector delivers vital medical and diagnostic application components, guaranteeing reliability and precision. Carclo's advanced solutions address the evolving needs of the aerospace industry, prioritising safety and performance. The Precision Tech sector serves diverse markets with customised components, optimising efficiency and durability. Backed by 13 strategically located facilities, Carclo's global drive for innovation, quality and customer satisfaction ensures continued success in these competitive markets.

See more on page 15

Chair's statement

In response to a challenging external environment, we have responded rapidly to implement a new strategy and refresh both the Board and executive management team. I am excited for the future prospects of the Group and am confident that we will deliver long-term value for all of our stakeholders.

Joe Oatley
Chair

Dear Shareholder

The year to 31 March 2023 was one where the Group faced significant challenges driven by changes in the external environment. In response to these challenges we have revised our strategy and refreshed both the executive team and the Board to ensure that Carclo is positioned to succeed and deliver value for all of its stakeholders over the long term.

Whilst there remains much to do, I am very encouraged to see that the efforts of our team in driving our new strategy forward are already starting to bear fruit with a much improved performance, both operationally and financially, in the EMEA region of our CTP division as we moved into the new financial year. Our Aerospace division has also returned to health with a robust performance during the year driven by the combination of strong management leadership on cost control and a recovery in the business' end markets.

Strategy

Faced with the multiple challenges of significant increases in input costs, the rising cost of capital as global interest rates continued on an upward trajectory and limited labour supply, in particular in the US, the Board has refocused the Group's strategy to deliver earnings growth and cash generation through improved efficiency and better utilisation of our existing asset base. Our new strategy is focused on delivering improved margins and return on capital through a focus on operational excellence whilst deleveraging our balance sheet through a focus on cash generation. Our investment priorities now lie in supporting commitments to our existing customers and continuous improvement with a swift return on investment. You can read more about our new strategy on pages 12 to 14.

Creating value for all stakeholders

We recognise that considering the interests of all of our stakeholders is of fundamental importance to the long-term success of our business, whether they be our customers, employees, investors, lenders, or the communities in which we work. Our new strategy is designed to create value for all of these stakeholder groups.

For more information about our stakeholders and our Section 172 statement please go to page 23.

Chair's statement continued

Environmental, social and governance ("ESG")

We have brought new focus within the business to the ESG agenda, led directly by our CEO. As part of our commitment to sustainability, we have introduced a Group-wide programme to both reduce the waste in our manufacturing processes and also decrease our energy usage per unit of production. We also continue to encourage our businesses to support their local communities through charitable support and education initiatives and responsibility for this is devolved to local management.

Good governance emanates from an effective Board that provides strong leadership. I am pleased with the smooth CEO transition to Frank Doorenbosch and am confident that our new CEO, together with other executive team members, will ensure that Carclo maintains the highest standards of corporate governance.

You can read more about our ESG activities on pages 28 to 39.

Financing

As announced on 31 March 2023, I am pleased to reaffirm that we reached agreement with our lending bank to reset the interest cover covenant of the Group's banking covenants through to June 2025 to a more appropriate level in light of the rise in global interest rates and the resultant impact of the Group's cost of debt. The Group is committed to a strategy of reducing its leverage and I am pleased to be able to report that, since year end, the Group has made additional repayments on its term loan over and above those stipulated in the original financing arrangement. I would like to thank our lending bank for the support it has given the Group over a number of years.

The Board

We have restructured our Board to re-establish the roles of Non-Executive Chair and Chief Executive Officer, in line with the Corporate Governance Code.

I am delighted with the impact that Frank Doorenbosch has made since stepping into the CEO role in October 2022 from his previous position as a Non-Executive Director. He brings a wealth of directly relevant experience and has brought great pace and energy to the implementation of our new strategy throughout the Group. David Bedford joined the Board as CFO in November 2022 from his previous role as Finance Director of our CTP division and, together with Frank and supported by the executive team, is driving the changes needed to ensure that we have the financial resources, systems and infrastructure in place to support our strategy over both the short and long term.

I am also delighted to welcome Rachel Amey to the Board as a Non-Executive Director. Rachel brings a wealth of financial and business expertise to the Board and has already made an impact in the support and challenge she has provided to her colleagues around the Board.

I would like to thank all of my Board members for the support and counsel they have provided to me during the past year as we transitioned to our new strategy and dealt with the challenges facing the business.

We carried out an externally led evaluation of the performance of the Board during December 2022 which concluded that the newly formed Board is operating effectively across all aspects of its role. More details of this review can be found in the Corporate Governance report on page 64.

We are cognisant of the importance of diversity and inclusion across the whole of the Group, including the Board. Our Board of five Directors includes one woman and no Directors from an ethnic minority background. Whilst diversity is a consideration on appointment of a new member to the Board, our selection is always made on a completely meritocratic basis to ensure that we have the best people with the right mix of skills and experience to lead the Company.

Our people

At Carclo we are proud to employ the best people and they are our biggest strength. On behalf of the Board, I would like to thank all of our employees for their continued hard work and commitment.

Joe Oatley
Chair
19 July 2023

Chief Executive Officer's review

Transforming challenges into success: embracing strategy, resilience and leadership to shape a bright future.

Frank Doorenbosch
Chief Executive Officer

Our mission

Lead in precision components, leveraging global presence, expertise and commitment to exceed expectations. With a robust network, unwavering quality focus and inclusive employment, we drive excellence and deliver innovation globally.

See more on page 03

Introduction

As I look back on the past financial year, it is evident that Carclo encountered a range of external challenges that required us to be resilient and adaptable. Yet, we approach the future with unwavering optimism. Despite the obstacles we faced, we have embraced a strategic transformation, and we are already witnessing promising early signs of progress. Our steadfast strategy, supported by a revitalised leadership team, sets the stage for long-lasting success and sustainability.

The year in review

The past fiscal year presented us with numerous challenges, including rising debt costs, significant increases in input expenses, reduced demand for COVID-19 testing products and a tight labour market in key manufacturing locations. These hurdles prompted us to embark on a strategic transformation and reinforce our leadership team. As part of this transformative journey, we take pride in highlighting the increased diversity within our Board and senior executive team. We firmly acknowledge that diversity brings valuable fresh perspectives, fosters innovation and enhances decision-making.

Our strategic transformation focuses on operational excellence, robust financial health and the standardisation of processes and equipment to optimise asset utilisation, enhance efficiency and reduce complexity. We are energised and committed to deliver exceptional value to all stakeholders. Additionally, we are dedicated to sustainability, aiming to reduce waste and energy consumption while actively engaging with local communities.

Despite the economic challenges we faced, our revenues demonstrated resilience, increasing 3.8% at constant currency. This growth can be attributed to our successful collaboration on growth projects with our strategic customers. However, our margins, particularly in the CTP division, were impacted by time delay of passing on higher input costs. In addition, we absorbed some of these costs to uphold our commitment to our valued customers.

Encouragingly, we are beginning to witness the positive outcomes of our strategic actions, particularly within our EMEA Manufacturing Solutions business. This has resulted in stronger margins in the latter half of the year. The final quarter of 2022/23 revealed promising results from our new strategy, where our EMEA manufacturing platform showcased improved operational performance in the second half of 2022/23 with higher asset utilisation and increased cash generation. These positive developments underline the effectiveness of our strategic approach.

Chief Executive Officer's review continued

£143.4m	£5.9m	£7.8m	11.0%	£34.4m
Revenue 3.8% at a constant rate	**Underlying operating profit (11.8)% at a constant rate**	**Cash generated from operations Increase of 14.7% against prior year**	**Working capital as % of revenue 2022: 13.0%**	**Net debt 2022: £32.4m**

The year in review continued

Although our overall underlying operating profit performance for the year amounted to £5.9 million, which was lower than the previous year's figure (2021/22: £6.1 million), it is important to note that these results were achieved within a demanding economic climate. Despite the challenges, we remained focused on profitability and positioning the Company for future growth.

The restructuring costs associated with our strategic shift were substantial but necessary for the long-term sustainability of our business. While we faced these challenges, we managed to improve our cash conversion rate from 42.6% in 2021/22 to 84.0% in 2022/23. As a result, our net debt at the end of the year remained relatively stable, compared to the previous year end, considering constant currency factors. This achievement is particularly commendable given our ongoing commitments to bank interest payments, pension contributions and growth capital expenditures.

I am delighted to report that the implementation of our new strategy and our focused efforts on cash generation yielded positive results. We were able to generate robust operational cash in the second half of the year, which significantly improved our position compared to the figures as of 30 September 2022.

These achievements underscore our dedication to strengthening our financial position and maintaining a solid foundation for future growth. Despite the challenges we faced, our commitment to effective financial management and cash generation strategies has paid off, positioning us favourably as we move forward.

Strategy

Recognising the shifting dynamics of our business environment, we have undertaken a rigorous strategic review. The result is a renewed blueprint for Carclo's future, one that is flexible, robust and aligned with our mission.

At the heart of our strategy lies an uncompromising commitment to the safety and wellbeing of our workforce, customers and communities. We firmly believe that our success is underpinned by the health and prosperity of all our stakeholders. Hence, protecting and fostering this is not just a priority, it's woven into our operational DNA.

Recognising the evolving dynamics in our business environment, the core of our strategy is anchored on operational excellence and robust financial health. Central to our tactical blueprint is the Group-wide standardisation of our processes and equipment, an initiative aimed at optimising asset utilisation, enhancing efficiency and reducing the cost of complexity.

In the short term, our focus is on achieving stability and maximising return from our existing resources. To that end, we are instituting stringent asset management practices including meticulous tracking, optimised deployment and regular performance reviews, coupled with an investment in cost-efficient technologies and process improvements. By simplifying operations, we are effectively reducing the cost of complexity, increasing our agility and responsiveness.

In parallel, we're fostering an ethos of knowledge-sharing and cross-functional collaboration to disseminate and implement best practices throughout the organisation. This strategic blend of resource maximisation, process standardisation and collective learning not only drives up operational performance and reduces costs, but also enhances employee and customer satisfaction through the consistent and reliable delivery of high-quality products and services.

Chief Executive Officer's review continued

Strategy continued

Our new direction includes a keen focus on product and factory specialisation, allowing each of our facilities to hone in on their unique strengths and minimise the cost of complexity. This approach sharpens our focus, ramps up efficiency and elevates performance, thereby ensuring we deliver seamlessly to our global clientele across the entire gamut of our offerings – Design & Engineering and Manufacturing Solutions.

Our long-run facilities are 100% geared towards process optimisation and integrating advanced back-end automation, thereby enhancing throughput and quality. On the other hand, our medium-run facilities are tasked with increasing their agility, efficiently managing changeovers between runs and developing flexible automation systems to ensure continuity and productivity. The first region where we have completed the factory specialisation is EMEA, where the strategy is delivering the expected results. The next region we are addressing is the USA, albeit with different dynamics, where the focus will allow us to build a winning model.

We are keen to shape Carclo into an engaging organisation with high energy drive, committed to high-quality execution, when precision matters. To be ready to meet the evolving demands of our customers and the marketplace, our strategy includes diversifying our portfolio whilst aiming for steady top-line growth.

We are committed to fortifying our balance sheet and decreasing our debt, with an emphasis on cash generation, prudent management of working capital and enhancing equipment utilisation. We are channelling our capital investments towards measures that improve safety, efficiency, yield, and quality. Through enhanced project flexibility, leveraging on our well invested but underutilised machine park we will deliver growth.

When it comes to pricing, we are not racing to the bottom. Instead, we are committed to delivering exceptional value, underpinned by the high-quality and comprehensive support we offer.

Our team forms the heart of Carclo, their growth being a cornerstone of our strategy. We're prioritising investments in their professional enhancement, creating dedicated Educational and Excellence Centres regionally. This initiative empowers our engineers with robust training and skills development programmes, propelling process enhancements, automation advancements and innovative product line creation. We believe that nurturing their talents and fostering a culture of innovation will be pivotal to our collective success.

As part of our commitment to sustainability, we've launched our worldwide initiative, "Zelda". Its primary objectives are to reduce waste sent to recycling by 50% within two years and decrease energy consumption per unit of production by 15% over three years through energy optimisation. Moreover, we are devoted to creating a positive societal ripple effect via local community involvement.

We believe in being candid about our sustainability journey, and will consistently share updates on our achievements, challenges and milestones.

Divisional performance

CTP division

We have divided our CTP division into two separate businesses. Our Design & Engineering business is responsible for handling global customer development projects, while our Manufacturing Solutions business comprises our worldwide network of facilities, specialising in a comprehensive range of manufacturing services, encompassing injection moulding, assembly and supply chain solutions. Our CTP division has undertaken a substantial restructuring effort in the EMEA region to better align with customer needs and successfully navigate challenges such as rising input costs and labour shortages. The execution of our strategy, which includes standardising machines, processes and global quality standards, coupled with clear factory specialisation, has revitalised our operational results in the region. We are now focused on implementing these strategies in the US region to further strengthen our position.

Through an unwavering commitment to operational excellence and a customer-centric approach, we are dedicated to achieving sustained profitability and creating long-term value. These principles guide our actions as we strive to exceed customer expectations, drive efficiency and optimise our performance. By aligning our operations with customer needs and consistently delivering exceptional products and services, we aim to re-establish Carclo as a trusted industry leader and maximise value for our stakeholders.

Design & Engineering ("D&E")

In 2022/23, our Design & Engineering ("D&E") business demonstrated robust revenue performance, generating total revenues of £20.1 million. While sales were lower compared to last year's exceptional figures, they remained significantly higher than the average of the previous three years. This reflects the strength of our ongoing focus on the life sciences sector and strategic partnerships with existing customers.

By maintaining this strategic direction, we built a strong order book by the end of the year, positioning us favourably for continued success in the future. This is a testament to our ability to deliver value-added solutions and meet the evolving demands of our clients.

To further augment our capabilities and support our technical talent, we are establishing a state-of-the-art training facility at our Roseytown location in Pennsylvania. This facility serves as a dedicated space not only for validation purposes but, more importantly, for in-house training on manufacturing lines, mould technology and material behaviour. It enables our team to continually refine their skills and expertise, empowering them to consistently deliver best-in-class solutions to our valued clients. This investment in our team's development reinforces our commitment to excellence and ensures that we stay at the forefront of innovation in the industry.

Chief Executive Officer's review continued

Divisional performance continued
Manufacturing Solutions ("MS")

Our Manufacturing Solutions ("MS") business serves as our global manufacturing and assembly platform, strategically divided into three regions: Americas, EMEA and APAC. We have embarked on a focused journey of factory specialisation, emphasising operational excellence and minimising the complexities that arise in manufacturing processes.

In the first phase of our EMEA strategic reset, we are already witnessing the potential of our manufacturing platform through enhanced operational efficiency, increased asset utilisation and improved labour efficiency. These early successes reinforce our confidence in the effectiveness of our strategic approach. In the Americas, our leadership team faces challenges posed by input cost increases and labour shortages. Addressing these challenges remains our team's primary focus, and we are intensifying our efforts to execute the strategic positioning and factory specialisation of our US manufacturing platform.

Despite the hurdles faced, the MS business achieved modest revenue growth in 2022/23 at constant currency. Our revenues increased to £116.7 million (£104.9 million at constant currency). This growth was primarily driven by customer price increases that offset inflationary pressures and higher energy costs. By diligently managing these factors, we were able to maintain a positive revenue trajectory while navigating a challenging market environment.

Through our steadfast commitment to operational excellence and strategic focus on factory specialisation, we are confident in our ability to enhance our MS business's performance, drive efficiencies and maximise value for our stakeholders.

Aerospace division

The Aerospace division has demonstrated a remarkable improvement in profit performance year-on-year, benefiting from the post-COVID-19 market recovery. Our revenue experienced impressive growth, reaching £6.6 million in the current fiscal year compared to £4.7 million in 2021/22, representing a substantial increase of 40.9%. This resurgence in the Aerospace division's performance is highly encouraging, highlighting our ability to adapt and thrive in evolving market conditions.

While our progress in the Aerospace division is noteworthy, we did experience some challenges in our cash conversion rate due to constraints within the supply chain of specialised metals. However, our commitment to delivering high-quality products and services remains unwavering, positioning us for continued success and growth in the aviation industry.

With the aviation sector on an upswing, we are well positioned to leverage this positive momentum. Our dedication to excellence, combined with our relentless focus on meeting customer expectations, enables us to capitalise on the opportunities that lie ahead. As we navigate challenges and pursue opportunities, we remain committed to maintaining our reputation as a trusted provider of superior products and services in the aerospace market.

Financing

Given the impact of rising interest rates and the high inflationary environment, we have worked closely with our lending bank to secure appropriate ongoing financial support for the business. We are pleased that we continue to be supported by the bank, who have agreed to a more appropriate set of covenants during the period whilst we revitalise the business and implement our new strategy, and the legal documents surrounding this agreement have now been signed.

Sustainability and corporate responsibility

We have clearly defined our sustainability strategy in our worldwide initiative "Project Zelda". We are first addressing the major contributors to our ecological footprint, being raw material and electricity usage. The team is focused on delivering a sustainable improvement in reducing, reusing and upcycling the materials used within our production processes. Overall targets to be reached in two years are:

- a 50% reduction of materials we send to recycling;
- a 10% reduction of the amount of kWh per kilo of products sold.

We are enhancing our various community engagement initiatives; we have continued to invest in the growth and development of the regions in which we operate, creating opportunities for education, skill development and employment.

Moving forward

The past year presented us with significant challenges, but it also marked a transformative period of renewed focus. We have implemented a new strategy, formed a new Board and established a diverse and dynamic leadership team, all fuelled by a high level of energy and unwavering commitment to our employees and customers. While there is still much work ahead, the early results from our new strategy are promising, instilling a sense of optimism and belief in a bright future.

Our positive outlook is supported by compelling evidence. We have successfully renegotiated our banking covenants, securing financial stability as we continue to implement our new strategic approach. Significant progress has been made in our Mitcham operations, further strengthening our confidence in the effectiveness of our initiatives. Furthermore, we have successfully reached a settlement agreement with the cancellation of a supply contract framework agreement, reinforcing our ability to navigate challenges and capitalise on opportunities.

In conclusion, we acknowledge that 2022/23 presented its fair share of difficulties. However, we have already embarked on a new chapter and are turning the page towards a future brimming with possibilities. We have full confidence in our new strategy and leadership team, feeling that the best is yet to come. We extend our heartfelt appreciation to the staff at Carclo for their ongoing support during this transformative time. Together, we will navigate this transition and forge a path towards sustained success.

Frank Doorenbosch
Chief Executive Officer
19 July 2023

Our strategy

Our strategic goals

01 Comprehensive customer support

Supporting our customers globally from the initiation of development through production and assembly.

See more on page 19

02 Excelling in performance and experience

Delivering best-in-class operational performance, financial results and customer experience.

See more on page 20

03 Empowering our workforce

Attracting and retaining premier talent by fostering an inclusive, diverse culture that empowers and develops employees to drive business growth.

See more on page 18

04 Ethical, safe, collaborative, improvement

An unwavering commitment to health and safety, ethics, collaboration and continuous improvement.

See more on page 18

Our strategy continued

Our strategic priorities

01 Strengthening balance sheet

Focused capital investment to improve efficiency, yield, quality and safety. Strict management of working capital.

See more on page 42

02 Maximising asset utilisation

Standardisation of our processes and equipment, and sharing of best practices throughout the organisation.

See more on page 08

03 Improving margins over top-line growth

A Group-wide effort to add value to our customers and optimise our costs and efficiency.

See more on page 08

04 Maximise the value of our global footprint

Implementing factory specialisation to drive focus, efficiency, quality and performance. Deliver efficiently to our global customers for both Design & Engineering and Manufacturing Solutions.

See more on page 22

Our strategy continued

Our strategic enablers

01

Fully engaged, safe workforce

We will foster a culture of employee engagement and development to support our focused capital investment, tight management of working capital, and drive improvements in efficiency, yield, quality and safety.

02

Innovation through new technology

We will harness the power of new technologies, including automation and artificial intelligence ("AI"), to increase operational efficiency, improve quality and stay at the forefront of our industry, while maximising the value of our global footprint.

03

Value creation through strategic partnerships

We will develop strategic partnerships with customers and suppliers to capture and create more value together, improving our global footprint and delivering efficiently to our customers for both Design & Engineering and Manufacturing Solutions.

04

Asset optimisation through operational excellence

We will drive operational excellence through standardisation of our processes and equipment, and transfer of best practices across the Group to maximise asset utilisation and improve margins over top-line growth.

Our markets

Life Science

Trend

The Life Science market, particularly diagnostic disposables and drug delivery systems, is experiencing significant growth, fuelled by the rising incidence of chronic diseases, technological advancements and demographic changes. The global plastic pharmaceutical packaging market, valued at USD 100 billion in 2020, is predicted to grow at a CAGR of 6.7% from 2018 to 2028. The COVID-19 pandemic triggered a spike in demand for diagnostics, now stabilising, with the APAC region projected as the fastest growth sector.

Market drivers

- Chronic Disease Prevalence: Rising incidences of chronic conditions, such as diabetes, necessitate improved diagnostic and treatment options.
- Ageing population: An aging global demographic spurs demand for enhanced healthcare products and services.
- Technological advancements: Innovations in materials, miniaturisation and manufacturing processes allow for the development of more efficient, user-friendly devices.

Our response

Carclo is poised to meet the growing demand for advanced diagnostic tools, insulin delivery systems and respiratory products in the life sciences industry. Through strategic investments in R&D and close collaboration with clients, we deliver high-quality, precision-engineered components that contribute to improved patient outcomes and enhanced healthcare experiences. Our commitment to innovation, quality and partnerships drives our mission to make a significant impact in the industry.

Precision Tech

Trend

The Precision Tech market is seeing divergent trends. While the ATM market shows limited global growth, with a CAGR below 3%, the Middle East and Africa (MEA) region is expanding, counteracting the overall decline. On the other hand, the Smart Home Automation market, encompassing technologies such as internal high precision gearing and Fresnels, is projected to grow substantially. The global market size was valued at USD 65 billion in 2022 and is predicted to expand at a CAGR of 27.3% from 2023 to 2030, driven by consumer demand for features such as remote operation and interactive experiences.

Market drivers

- Smart Home Adoption: Consumer interest in energy efficiency, convenience and security, coupled with the rise of smart assistants, is driving demand for home automation systems.
- Regional ATM Demand: Despite global trends, emerging markets, particularly MEA, show an increased demand for ATMs, driven by efforts to improve financial inclusion.
- Technological Advancements: Innovations in materials, engineering and manufacturing enable the production of more reliable, precise, and durable components.

Our response

Carclo Precision Tech stays agile amidst these market shifts. Our focus lies in providing high-quality, precision-engineered components, including fresnels, for home automation systems and gearing for ATMs. To compete effectively with the predominantly Chinese competition, we have brought together all Fresnel production to our European Excellence Centre, with plans to shift our US production of home automation components to our Chinese facility. We aim to deliver both innovative and cost-effective solutions tailored to the rapidly evolving needs of the Precision Tech industry.

Our markets continued

Speciality Optics

Trend

The Optics market is witnessing growth of a compound annual growth rate (CAGR) of 11.0% from 2023 to 2030, driven by the widespread adoption of LED lighting and the ongoing digital transformation across various industries. The demand for energy-efficient, high-performance and customisable optical solutions is increasing, driven by advances in technology and the growing need for sustainable lighting alternatives.

Market drivers

- Energy efficiency: The push for greener, energy-efficient lighting solutions increases demand for innovative LED optical designs.
- Digital transformation: Quickening digitalisation in sectors like automotive, healthcare and consumer electronics necessitates advanced optical components for modern applications.
- Customisation: Evolving market demands require more tailored and flexible optical solutions for diverse projects and applications.

Our response

General LED optical lighting was worth over $70b globally in 2022 and is a highly competitive industry. At Carclo we position ourselves as a niche player for the high-end product lines, especially in architectural lighting. Our in-house dedicated team provides innovative specialist design solutions.

By staying at the forefront of technological advancements and responding to evolving market needs, Carclo Optics aims to lead the way in delivering innovative and sustainable optical solutions for various industries.

Speciality Aerospace

Trend

The Aerospace industry, recovering from the COVID-19 downturn, is poised for growth, catalysed by technological advancements, an increased focus on sustainability, and the need for robust supply chains. The demand for specialised components, particularly aerospace cables, continues to increase, with the global market expected to grow at a CAGR of 5.7% and reach $1.6 billion.

Market drivers

- Technological Innovation: Advances in aerospace technology necessitate reliable, sophisticated components.
- Sustainability: The push for greener aviation propels the demand for environmentally conscious materials and practices.
- Supply Chain Resilience: The pandemic underlined the necessity for dependable, adaptable supply chains to ensure timely production and delivery.

Our response

Carclo's Speciality Aerospace division, leveraging a century of experience in manufacturing machined metallic components and mechanical cable assemblies, targets the replacement market in Europe, setting us apart from volume players. Operating in a niche market, we provide high-quality solutions primarily for European customers, giving us a unique advantage in a market dominated by large-volume players. We have worked on over 100 different aircraft platforms and continue to innovate, providing premium solutions to stay competitive in the dynamic aerospace industry.

Business model

Embracing a global mindset and implementing local strategies, we serve our international customers with exceptional standards and innovation, facilitated by our regional manufacturing platform.

See more on page 05

Operating model

CTP Division

Design & Engineering

We are a project-focused organisation, providing comprehensive global support to our customers. From the initial stages of mould design and validation, to fostering internal education and innovation, we are dedicated to ensuring long-term competitiveness.

Manufacturing Solutions

Efficient global manufacturing platform supplying the Americas, EMEA and APAC. Specialised factories, global technical support and quality standards ensure cost-effective fulfilment of local and global customer demands.

Aerospace Division

Aerospace

Our certified and specialised facilities are dedicated to manufacturing consistent, high-quality precision components that adhere to the stringent safety standards of the aerospace industry.

Competitive advantage

Customer satisfaction

Our customers have selected us over our competitors, and we recognise that this decision is based on their faith in our ability to meet or exceed their expectations.

Operational excellence

By concentrating on operational excellence, we are able to provide our customers with high-quality products that meet their expectations.

Responsive culture

Our flat and decentralised management structure enables quick and agile decision-making.

Global footprint

Our business model operates across three continents, embracing global standardisation and offering local support to our global customers.

See more on page 23

Value creation

Shareholders

Maximising returns and long-term growth through strategic investments.

Suppliers

Building strong partnerships based on trust and mutual growth.

Employees

Fostering growth, development and a rewarding and inclusive work environment.

Pension fund

Safeguarding funding through prudent management.

Customers

Delivering exceptional quality and innovative solutions for customer success.

Debt providers

Ensuring financial stability and honouring financial obligations responsibly.

Local communities

Engage and support the local communities to ensure we have a positive impact on people's lives.

Business model in action

Empowered workforce

Fostering a safe, inclusive and collaborative environment

Safe and inclusive environment

Prioritising the wellbeing and growth of our workforce. At Carclo, safety is our foundation. We invest in comprehensive programmes and training to provide a secure working environment for our employees. We also foster inclusivity, embracing diverse perspectives and backgrounds, which strengthens our organisation and drives innovation.

Nurturing collaboration, diversity and safety

Carclo values our employees as our greatest asset. We foster a culture of empowerment, collaboration and inclusion that drives innovation and growth. By prioritising safety, promoting diversity and creating a supportive work environment, we ensure the success and wellbeing of our team.

Employee engagement

Inspiring passion, creativity and dedication. Engaged employees are at the heart of our success. Through open communication, career development opportunities and recognition programmes, we cultivate a motivated and committed workforce. This fosters exceptional customer service, drives growth and ensures our long-term success.

Diversity and inclusion

Harnessing the power of diverse perspectives. Carclo celebrates diversity and actively promotes an inclusive workplace where all employees feel respected and valued. By embracing different perspectives, we drive innovation, make better decisions, and create a dynamic and thriving organisation.

Social and environmental responsibility

Making a positive impact beyond financial success. We believe in being responsible corporate citizens. Our empowered workforce plays a vital role in driving positive social and environmental change. We collaborate with local communities, support charitable initiatives and implement sustainable practices to minimise our environmental footprint.

In conclusion, Carclo's commitment to empowering our workforce, fostering collaboration and inclusion, ensuring safety and embracing diversity drives our success. By creating a supportive and inclusive environment, we enable our employees to thrive, contribute their best and make a positive impact in our communities and the world.

Business model in action continued

Strategic alliances

Unlocking value through strategic alliances

At Carclo, strategic alliances are key to our business approach, driving value creation and fostering innovation. Through transparent communication, trust and a shared dedication to quality, we collaborate with customers and suppliers to generate mutual benefits and deliver exceptional results.

Customer collaboration
Tailored solutions for lasting partnerships. By closely collaborating with our customers, we gain deep insights into their unique needs and develop customised solutions. These partnerships cultivate trust, enhance customer satisfaction and open doors to new opportunities for innovation and growth.

Supplier co-operation
Building a robust supply chain for success. Strategic alliances with suppliers ensure a reliable and high-quality supply chain, enabling us to meet customer expectations and maintain a competitive edge. We work hand in hand with our suppliers to identify cost-saving opportunities and operational efficiencies, resulting in better services and competitive prices for our customers.

Successful alliances
Driving innovation and operational excellence.
Our collaboration with a major automation manufacturer showcases the power of strategic alliances. By working closely together, we have developed innovative handling of precision plastic components that meet specific client requirements, improving quality and reducing costs.

Another noteworthy alliance is our partnership with a key raw materials supplier. This collaboration has strengthened our supply chain, ensuring the availability of critical components while identifying opportunities for cost savings through process enhancements. As a result, we continue to deliver premium products, enhancing operational efficiency and profitability.

In conclusion, strategic alliances are at the core of Carclo's business model. By cultivating partnerships with customers and suppliers, we unlock value, drive innovation, optimise costs and achieve long-term success. Our commitment to trust, communication and shared goals paves the way for collaborative growth and ongoing excellence in the market.

Business model in

Achieving excellence in operations

Maximising efficiency through factory specialisation and standardisation

At Carclo, operational excellence is paramount as we harness the full potential of our assets and drive efficiency throughout our operations. We have implemented a strategic approach that includes factory specialisation and standardisation, allowing us to optimise our manufacturing processes and deliver enhanced value to our customers.

By dedicating each facility to specific product lines, we achieve focused expertise and streamlined operations. Our long-run operations focus on process optimisation and back-end automation, while we invest in quick changeovers and flexible automation in our medium-run facilities. This enables us to respond swiftly to customer demands, adapt to market changes and capitalise on our technical capabilities. Through factory specialisation, we maximise efficiency and leverage our strengths to deliver exceptional products and services.

Moreover, our commitment to operational excellence extends to the diligent management of our assets. We continuously evaluate and optimise the utilisation of machinery and working capital across our manufacturing network. By eliminating waste and maximising value, we lower costs, improve efficiency and drive increased value for our customers and shareholders.

Our pursuit of operational excellence is rooted in a strong commitment to safety and environmental sustainability. We prioritise the wellbeing of our employees and the communities we serve. Through investments in safety technologies, comprehensive training programmes and adherence to environmental standards, we foster a culture of accountability and create a safe, engaging work environment.

This holistic approach to operational excellence not only enhances our productivity and profitability but also reflects our dedication to sustainability and the wellbeing of our stakeholders. By aligning our operations with our values, we drive value creation while making a positive impact on our employees, communities and the environment.

In summary, Carclo's focus on operational excellence, driven by factory specialisation and standardisation, enables us to maximise efficiency, optimise our asset base and uphold our commitment to safety and sustainability. This strategic approach underpins our long-term success and positions us as a leader in our industry.

Business model in action continued

Pioneering technology for industry leadership

Leveraging innovation to lead our industry

At Carclo, we recognise the power of technology in driving operational excellence and maintaining a leadership position in our industry. By harnessing state-of-the-art innovations, we continuously enhance our efficiency and deliver enhanced value to our customers.

Automation lies at the core of our strategy for achieving operational excellence. Through strategic investments in automated processes and machinery, we reduce manual labour, improve speed and ensure precision. This is particularly critical in our precision engineering and manufacturing sectors, where meeting customer specifications requires consistency and accuracy.

We also prioritise data acquisition and analysis as a means to drive improvement and efficiency. By implementing robust data collection and analysis tools, we gain transparency into our processes, products and customers. This empowers us to identify areas for enhancement, streamline operations and deliver exceptional service to our customers.

Looking ahead, we are actively exploring the potential of artificial intelligence ("AI") in our operations. AI offers transformative possibilities, from optimising production and supply chains to refining forecasting and planning. We embrace opportunities to integrate AI, leveraging our expertise and resources to drive effective implementation and unlock the full value of our collective knowledge throughout the organisation.

Our commitment to embracing new technology extends beyond internal operations; it also shapes our customer engagement. By staying at the forefront of technological advancements, we develop innovative solutions that empower our customers to stay competitive and achieve their business objectives. For example, our patented technologies in the life sciences sector enable more precise and efficient medical testing, leading to improved patient outcomes. In aerospace, we develop sophisticated safety systems that enhance passenger safety and mitigate risks.

In summary, Carclo's dedication to pioneering technology drives our pursuit of operational excellence, customer value creation and industry leadership. We embrace technological advancements, recognising the transformative potential they hold. With a focus on automation, data-driven insights and the exploration of AI, we are well positioned to drive innovation, efficiency and customer satisfaction.

"Integration of technology in our manufacturing processes, through autonomation and automation, enhances efficiency, accuracy and productivity. It enables Carclo to streamline operations, thereby reducing costs and improving product quality, ultimately leading to increased profitability and customer satisfaction."

Brandon Swinteck, VP Operations

Regional business review

"Establishing the EMEA/India regional structure has enhanced our strategic KPIs. By classifying our facilities into high-volume, high-automation units and medium-volume, value-added units, we've optimised our geographical service coverage for key partners, impacting innovation, cost, quality and delivery." Gary Allan, Managing Director EMEA/India region

CTP

Americas

Sales

£74.0m +2.6%[1]

In 2022/23, we focused on nurturing existing client relationships in the US market while embarking on an exciting journey of factory specialisation.

By delivering exceptional services and products, we achieved significant growth, solidifying our position as a regional leader.

To support our expansion efforts, we established a training centre in Pennsylvania and expanded production capacities.

Despite challenges posed by inflation and labour market difficulties, we took proactive measures to mitigate risks and safeguard our margins, paving the way for a successful future in factory specialisation.

CTP

EMEA

Sales

£45.5m +6.8%[1]

We achieved robust growth by leveraging factory specialisation to cater to our existing customer base. Our teams diligently focused on streamlining processes and optimising performance. Our UK site prioritised high-volume long runs, while our Continental European facility excelled in agile changeovers and short series production for strategic partners.

Factory specialisation has significantly improved our competitiveness and strengthened our strategic partnerships. By tailoring our capabilities to meet specific needs, we foster collaboration and drive mutual success.

Moving forward, we remain committed to enhancing our operations in EMEA, continuing our journey of factory specialisation to deliver exceptional value, drive efficiency and forge even stronger partnerships.

CTP

APAC

Sales

£17.3m -7.5%[1]

We have started the journey of producing life science products in our Indian facility, targeting the supply to of the growing local market.

In China, we faced significant challenges due to the pandemic, with travel restrictions and operational issues at our customers' facilities leading to lower revenues.

Nevertheless, our business demonstrated resilience and adopted appropriate mitigation strategies.

We remain committed to broadening our presence in the APAC region and exploring new growth opportunities.

Global

Aerospace

Sales

£6.6m +39.4%[1]

In our aerospace business, we saw a robust recovery in the market after the lifting of COVID-19-related air travel restrictions. Thanks to our niche market positioning in precision cables and safety systems, we were able to maintain our margin levels and generate strong cash flow.

Our dedication to providing high-quality products and services solidified our relationships with strategic customers and enabled us to navigate the challenges of the pandemic.

Moving forward, we are continuing to prioritise the delivery of high-quality solutions that cater to our customers' evolving needs.

1. At constant currency.

Our stakeholders

Carclo's relationships with all our stakeholders are crucial to our business success. Our engagement with each group forms the basis for all our actions and initiatives. Both the Board and Carclo are deeply committed to public collaboration and nurturing meaningful connections with all stakeholders.

Section 172

At Carclo plc, our purpose is to serve as the preferred and trusted partner for global customers by providing high-precision critical components and supporting our customers throughout the development and assembly process. This strategy demands effective engagement with all our stakeholders to ensure we fulfil our purpose and achieve our objectives.

As Directors, we acknowledge our responsibilities in promoting the success of the Company in accordance with Section 172 of the Companies Act 2006.

This obligation requires us to take various factors into account, including the interests of our stakeholders when making decisions.

We are devoted to supervising stakeholder engagement and executing our duties and responsibilities in alignment with the principles of good corporate governance. Further information regarding our approach to stakeholder engagement and how we fulfil our duties and responsibilities can be found in the statement of corporate governance on pages 64 to 67.

Employees

Carclo appreciates its employees as vital stakeholders in the business. Their feedback informs our Board decisions regarding workplace conditions, growth opportunities and overall Company strategy. Their satisfaction and alignment with Company values ensure our long-term success, pushing us to provide a safe, inclusive and motivational work environment.

Material issues

- Clear communication of our core values throughout the Group.
- Fostering an entrepreneurial spirit and encouraging innovation.
- Attracting, training and retaining a diverse range of talent and perspectives.
- Promoting a culture of ethics, openness, transparency, respect and inclusivity.

Current engagement

- Holding Board meetings at various sites to increase visibility and engagement from the whole Board.
- Conducting sessions with a cross-section of employees during these meetings, enabling employees to engage directly with Board members.
- Assigning Non-Executive Directors responsibility for employee engagement at different sites, acting as a conduit between the Board and employees.

Future engagement

- Promoting transparent feedback during meetings, with leadership addressing concerns.
- Hosting quarterly virtual town halls for open discussions on various issues.
- Boosting Board visibility and understanding within the organisation.
- Introducing employee development programmes for skill enhancement and career growth.
- Implementing wellbeing initiatives, including flexible working, wellness programmes and mental health support.

Our stakeholders continued

Shareholders

Shareholder opinions are highly influential in our Board's decisions. We commit to consistent engagement, conveying our financial performance, business developments and strategic initiatives, always aiming for responsible, sustainable growth. This commitment informs our decisions, securing the financial support needed for Carclo to thrive.

Material issues

- Transparent and timely communication of financial performance and business developments.
- Sustainable and responsible growth that delivers long-term shareholder value.
- Alignment of corporate strategy with shareholder interests and expectations.
- Strong corporate governance and risk management practices.

Current engagement

- Regularly publishing financial reports and updates on business developments.
- Conducting Annual General Meetings and investor conferences to present Company performance, strategy and outlook.
- Hosting webcasts and conference calls to discuss financial results and answer investor questions.
- Maintaining a dedicated investor relations function to address shareholder enquiries and concerns.

Future engagement

- Improving digital communication for accessible, interactive shareholder information.
- Adopting ESG reporting frameworks, showcasing commitment to responsible growth.
- Conducting regular investor roadshows and virtual events for dialogue and information exchange.
- Engaging with institutional investors and proxy advisors for strategy alignment.

Customers

Customer insights significantly shape our decision-making process. Their satisfaction drives our business; hence, we focus on understanding and meeting their needs, exceeding their expectations wherever possible. This dedication to customer service reflects in our development and assembly process, enhancing our offerings in high-precision critical components.

Material issues

- Ensuring the quality and reliability of our products and services.
- Strengthening customer relationships and maintaining high levels of satisfaction.
- Identifying and addressing emerging customer needs and market trends.

Current engagement

- Regular customer meetings and feedback sessions to discuss performance, identify areas for improvement and explore new opportunities.
- Participation in industry events and conferences to stay informed about market trends and customer requirements.
- Implementation of a robust customer relationship management system to facilitate communication and collaboration.

Future engagement

- Expanding our digital capabilities to enhance customer engagement, streamline processes and improve responsiveness.
- Developing new products and services that address emerging customer needs and market trends.
- Launching customer-focused sustainability initiatives that demonstrate our commitment to environmental and social responsibility.

Suppliers

Suppliers form an integral part of our stakeholder ecosystem. Their feedback aids our decisions on production timelines, product quality and environmental standards. We aim to foster strong relationships with suppliers sharing our values and ethical practices, ensuring high-quality products for our customers.

Material issues

- Ensuring responsible sourcing and adherence to ethical and environmental standards.
- Fostering long-term relationships with suppliers based on trust and collaboration.
- Encouraging innovation and continuous improvement within the supply chain.

Current engagement

- Regular meetings and communication with strategic partners to discuss performance, address concerns and explore opportunities for improvement.
- Conducting supplier audits to assess compliance with our ethical and environmental standards.
- Providing training and support to suppliers to help them meet our requirements and improve their practices.

Future engagement

- Expanding our supplier diversity programme to promote the inclusion of small and medium-sized enterprises, minority-owned and women-owned businesses in our supply chain.
- Implementing digital tools to enhance collaboration, communication and transparency within the supply chain.
- Developing joint initiatives with suppliers to address common sustainability challenges, such as reducing greenhouse gas emissions and improving resource efficiency.

Our stakeholders continued

Lending bank

Our lending bank's support has been crucial in periods of financial strain, and their advice informs many of our strategic financial decisions. Maintaining this robust relationship is essential to our financial stability, ensuring stakeholder confidence in Carclo's sound financial management.

Material issues

- Generating cash to fulfil the long-term commitment of the Company to the lending bank.
- Keeping the lending bank apprised of the progress on the Group's objectives and financial performance.

Current engagement

- Conducting periodic tripartite meetings with the lending bank and the pension fund to discuss financial performance and strategy.
- Collaborating on mutual reviews of the Group's budget and strategic plans, adjusting interest covenant rulings as needed to maintain the lending bank's support.

Future engagement

- Organising regular quarterly meetings between the CEO, CFO and the lending bank to review progress and address any concerns.
- Enhancing communication channels with the lending bank to ensure timely and transparent updates on the Group's financial performance and developments.
- Exploring opportunities for optimising the financial structure and accessing additional sources of funding in partnership with the lending bank.

Pension fund

The pension fund's status directly influences our decisions on employee benefits and financial allocations. Committed to fulfilling obligations to past and current employees, we ensure timely contributions, keeping the fund healthy and serving our employees' interests.

Material issues

- Adhering to the agreed schedule of deficit repair contributions, balancing the needs of the scheme and the business.
- Ensuring the appropriate management of the scheme's assets and liabilities.

Current engagement

- Holding periodic tripartite meetings with the lending bank and the pension fund to discuss financial performance and strategy.
- The Chair, CEO and CFO actively engaging with the pension trustees during tripartite meetings and maintaining regular phone communication in between.
- Collaborating closely with the pension trustees to achieve optimal long-term funding for the pension scheme.

Future engagement

- Continuing close co-operation and communication with the pension trustees at multiple levels to ensure alignment of interests and objectives.
- Regularly reviewing and adjusting the deficit repair contributions schedule, as needed, to maintain the pension fund's financial stability and address any emerging challenges.
- Exploring opportunities for enhancing the pension scheme's investment strategy in collaboration with the pension trustees, focusing on long-term sustainability and value creation.

Local communities

Community input is invaluable to our Board's decision-making, impacting our approach to corporate citizenship. We strive to generate positive and sustainable impacts on local communities, basing our decisions on their needs and our capacity to contribute positively to their growth.

Material issues

- Identifying the positive and sustainable contributions the Group can make to local communities.
- Encouraging and motivating our employees to support and/or participate in these activities.

Current engagement

- Demonstrating high engagement of our Asian sites in addressing local community issues.
- Showcasing examples of our community involvement in our Responsible Operations report.

Future engagement

- Seeking agreement within the Group Executive team to increase engagement in other regions.
- Implementing quarterly reporting on community involvement in the leadership "town hall" meetings for all employees.
- Highlighting our community engagement activities on our website and social media channels.

Key Performance Indicators

To enable our performance to be tracked against our organic growth strategy, we have determined that the following Key Performance Indicators ("KPIs") should be focused on.

Financial KPIs

Return on capital employed (excluding pension liabilities) (%)

7.3% ▼ 0.5 pps

2022: 7.8%

Definition and method of calculation

Return on capital employed measures the underlying operating profit for the Group, including discontinued operations, as a percentage of average capital employed, calculated as the average of the opening equity plus net debt and pension liabilities, and closing equity plus net debt and pension liabilities.

Explanation of importance

Helps to monitor our success in generating profits from the capital employed in the business.

Return on sales (%)

4.1% ▼ 0.6 pps

2022: 4.7%

Definition and method of calculation

Underlying operating profit from continuing operations divided by revenue from continuing operations. Please refer to the reconciliation of non-GAAP financial measures within the information for shareholders on pages 199 to 201.

Explanation of importance

Helps to monitor the efficiency of the Company's operations.

Cash conversion rate

84.0% ▲ 41.4 pps

2022: 42.6%

Definition and method of calculation

Cash generated from operations divided by earnings before interest, tax, depreciation and amortisation.

Explanation of importance

Helps to monitor how well the Company converts its profits into cash.

Fixed asset utilisation ratio

3.2x ▲ 14.3%

2022: 2.8x

Definition and method of calculation

Revenue from continuing operations divided by tangible fixed assets.

Explanation of importance

Helps to monitor how efficient we are using the tangible fixed assets at our disposal to generate revenue.

Underlying operating profit from continuing operations (£m)

£5.9m ▼ 2.6%

2022: £6.1m

Definition and method of calculation

Operating profit from continuing operations before separately disclosed items and exceptional items. Please refer to the reconciliation of non-GAAP financial measures within the information for shareholders on pages 199 to 201.

Explanation of importance

Helps to monitor our success in generating profits from our operations and our performance.

Net debt (£m)

£34.4m ▲ 6.0%

2022: £32.4m

Definition and method of calculation

Net debt is defined as loans and borrowings, including lease liabilities, cash and cash deposits as at the balance sheet date. Please refer to the reconciliation of non-GAAP financial measures within the information for shareholders on pages 199 to 201.

Lease liabilities as at the balance sheet date were £11.9 million.

Explanation of importance

Helps to appraise the Group's capital structure and liquidity.

Key Performance Indicators continued

Non-financial KPIs

Incident frequency ratio

1.47 ▼ 42.4%

2022: 2.55

Definition and method of calculation

Measures the number of incidents per 100,000 hours worked.

Explanation of importance

Helps to monitor our success in operating a safe working environment.

Energy intensity ratio (tCO_2)

155.3 tCO_2 ▼ (9.7)%

2022: 172.0 tCO_2

Definition and method of calculation

Energy intensity ratio is tCO_2 per £1 million of revenue from operations.

Explanation of importance

Enables us to monitor tonnes of carbon dioxide emissions per £1 million of revenue.

Women in senior management positions (%)

31.0% ▲20 pps

2022: 11.0%

Definition and method of calculation

Calculated as the proportion of employees in senior management positions identifying as female.

Explanation of importance

Enables us to monitor our commitment to our global policy of equality and inclusiveness.

Responsible operations

The Board considers that it is paramount that the Group maintains the highest ethical and professional standards in all its undertakings.

What's in this section

Corporate social responsibility is a key element of operations and decision-making. The Group understands the importance of ensuring that the business has a positive impact on employees, customers, suppliers and other stakeholders, which in turn supports the long-term performance and sustainability of the business.

Our philosophy is to embed the management of these areas into our business operations, both managing risk and delivering opportunities that can have a positive influence on our business.

We also recognise that the expectations of all our stakeholders are constantly increasing and we aim to meet and, in time, exceed these expectations.

During the year there have been no prosecutions, fines or enforcement action as a result of non-compliance with safety, health or environmental legislation. We have achieved significant reductions in accident rates and introduced a number of new initiatives to support the health and wellbeing of our employees.

Group Executive Committee

The Group Executive Committee, which is chaired by the Chief Executive Officer, drives the Group's actions in the fields of global social responsibility, health and safety, anti-bribery and corruption, environmental and climate change policies, charitable support, equality and human and labour rights, whistleblowing and supply chain labour standards.

Non-financial reporting

We comply with the non-financial reporting requirements contained in Sections 414CA and 414CB of the Companies Act 2006.

The table to the right, and information to which it refers, is intended to help stakeholders understand our position on key non-financial matters.

Reporting requirement	Policies and standards which govern our approach	Risk management and additional information
Environmental matters	Environmental Policy	Responsible operations report (page 32)
Employees	Ethical Policy Health and Safety Policy Equal Opportunities and Diversity and Inclusion Policy	Responsible operations report (pages 29 and 30)
Human rights	Modern Slavery Statement Ethical Policy	Responsible operations report (pages 29 and 30)
Anti-corruption and anti-bribery	Anti-Bribery and Corruption Policy Ethical Policy Whistleblowing Policy	Responsible operations report (page 30) Statement of corporate governance (pages 64 to 67)
Policy embedding, due diligence and outcomes		Principal risks and uncertainties (page 46)
Description of principal risks and impact of business activity		Principal risks and uncertainties (pages 46 to 55)
Description of the business model		Our business model and strategy (pages 17 to 21)
Non-financial KPIs		Key Performance Indicators (page 27)

Responsible operations continued

People

Employees

The Group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them and on various financial and economic factors affecting the performance of the Group.

The Group regularly updates its employment policies and all employees are issued with a staff handbook to keep them up to date with information relating to their employment.

The Group operates, and is committed to, a global policy of equality that provides a working environment that maintains a culture of respect and reflects the diversity of our employees. It is committed to offering equal opportunities to all people regardless of their sex, nationality, ethnicity, language, age, status, sexual orientation, religion or disability.

We believe that all employees should be able to work safely in a healthy workplace without fear of any form of discrimination, bullying or harassment.

We believe that the Group should demonstrate a fair mix across all levels of our business. At 31 March 2023, 28.5% of our employees identified as female (2021/22: 29.3%). The proportion of women in senior management positions amounted to 31% (2021/22: 11%).

Our diversity encompasses differences in ethnicity, gender, language, age, sexual orientation, religion, socio-economic status, physical and mental ability, thinking style, experience and education. We believe that the wide array of perspectives that result from such diversity promotes innovation and business success. We operate an equal opportunities policy and provide a healthy environment which will encourage good and productive working relationships within the organisation.

The safety and wellbeing of the Carclo team has continued to be foremost in the minds of the Board and in addition to the measures introduced at the start of the pandemic a range of further actions have been taken to support colleagues through these challenging times. The Board is grateful for the positivity, resilience and dedication shown by colleagues again this year.

The Group has had a Health and Wellbeing Programme ("Carclo Cares") since 2001, which provides all employees with access to an Employee Assistance Programme ("EAP") helpline. As a result, all employees have access to advice, guidance and support relating to emotional, financial or legal matters. A Group Stress, Mental Health and Wellbeing Policy was put in place in the same year and Health and Wellbeing Champion volunteers are in place at each site.

Apprenticeships case study

Our apprentices have truly exceeded our expectations with their incredible work over the last years. Their ability to adapt to evolving technology and utilise it to create innovative solutions is truly remarkable.

Gabe Acuña
Chief Technical Officer

Responsible operations continued

People continued

Employees continued

Carclo highly values the health and wellbeing of its employees and has been proactive in reinforcing a robust health and safety culture. Key initiatives personally driven by our CEO and our new leadership team, and appointment of a Global H&S Coordinator have significantly contributed to reducing the incident frequency ratio from 2.55/100,000 hours in 2021/22 to 1.47/100,000 in 2022/23:

- **Safety First:** All meetings, regardless of department or function, now begin with a focus on health and safety, ensuring it is always top of mind.
- **Carclo Cares Safety Week:** An initiative organised across all our locations, focusing on activities that promote safety awareness and practices, which helped increase knowledge and attention towards health and safety protocols.
- **Incident Reporting:** Direct reporting of any incident to the CEO has ensured prompt action and helps drive home the seriousness with which we take employee safety.
- **Carclo Cares Dashboard:** A global dashboard provides transparency about safety incidents and reinforces our commitment to accountability and improvement.
- **Visible Reminders:** All sites now display signs indicating the number of days since the last incident, fostering a conscious and consistent effort to maintain safe working environments.

The resulting decrease in the incident frequency rate reflects our sustained commitment to employee safety and illustrates our continuous efforts to improve. This reduction not only improves the overall work experience for our employees but also affirms our commitment to their health and safety.

Development

We continue to invest in the development of all our employees, through both informal and formal routes. Assessment of individual training needs is a key element of the annual appraisal process.

We regularly recruit apprentices, and we currently have 18 employees enrolled in registered apprenticeships globally.

Ethical Policy

Following the enactment of the Bribery Act 2010, we have codified our Ethical Policy confirming our commitment to not tolerating bribery, corruption or other unethical behaviour on the part of any of our businesses in any part of the world. Compliance with the Act has been a priority for the Group and the policy provides guidance and instruction to employees and training has been performed in all areas of the business to ensure that it is complied with.

Modern Slavery Act 2015

Carclo's most recent Modern Slavery Statement can be found at **www.carclo-plc.com**.

Safety is #1, and it isn't merely a set of rules to follow; it is a mindset that will guide our actions and decisions every day. Our employees and their families deserve nothing less."

Frank Doorenbosch, CEO

Responsible operations continued

Nurturing talent

At Bruntons we actively encourage our apprenticeship programme to produce the managers of the future. Our Managing Director, Operations Manager and Sales Manager all completed apprenticeships within the business and have now gained a cumulative 100 years of experience in the business.

Alan Hook
Managing Director, Bruntons

The working atmosphere of the department is great, and the different departments work really well together. There is good communication between managers and employees, and the managers care a lot about the upskilling of their employees.

Tiffany He
HR Assistant, China

I'm a Quality Control Engineer at our Latrobe, Pennsylvania facility. On a day-to-day basis, I ensure all products being produced meet the set quality standards. I've been with Carclo for almost eight years and have enjoyed every minute of it. Carclo has given me the opportunity to grow within the Company and I have been exposed to multiple departments to find my niche.

Abbey Machesney
Quality Control Engineer, Latrobe, US

I love working at Carclo. The Company's dedication to producing exceptional medical grade plastics fills me with a sense of pride every day. Moreover, the warm and close-knit work environment cultivates an atmosphere of collaboration and teamwork, enabling me to forge deep and meaningful connections with my colleagues across our departments.

Aiysha Ali
HR Manager, Mitcham, UK

Responsible operations continued

Environment

Environmental Policy

Carclo's guiding philosophy involves an ongoing commitment to mitigating, and where feasible, completely eradicating, negative environmental effects arising from its diverse commercial pursuits, whilst still delivering high-grade products that meet the unique requirements of our clientele.

Carclo seeks not merely to comply with all environmental laws and regulations but also to surpass the benchmarks put forth by the local regulatory bodies. This drive is part and parcel of Carclo's ambitious goal to create an environmentally conscious and responsible culture. We aim to involve all stakeholders – employees, clients and suppliers – in this endeavour, and we proactively engage and communicate with regulatory authorities at all suitable intervals.

Continuing our long-standing strategy to minimise waste, Carclo remains a steadfast member of Valpak, a not-for-profit coalition of businesses dedicated to the recovery and recycling of packaging materials.

Implementation actions for our Environmental Policy

Project Zelda is Carclo's landmark sustainability initiative. It concentrates on research and development to minimise waste, optimise energy efficiency, and promote sustainable resource utilisation. While specific details are confidential, the project underscores our commitment to environmental responsibility and innovation. We have set ambitious targets, aiming to cut our external waste by half within two years and reduce the energy consumed in creating quality products by 5% annually.

We're also taking steps to further enhance our sustainability standards by incorporating our EcoVadis membership into the very heart of our supply chain operations. EcoVadis, with its comprehensive rating system, will aid us in maintaining and elevating our responsible business practices.

Noteworthy CO_2 footprint factors

Energy consumption: We now measure this in kWh per kilogramme of products manufactured. Our ambitious target is a 5% reduction per annum for the next three years.

Material waste: This refers to the percentage of materials procured that end up as waste material outside of Carclo. Our goal is to cut this figure by half within three years.

Water usage: We measure our water consumption in absolute litres per annum. We are implementing water-saving measures throughout our operations.

Responsible operations continued

Health and safety and ESG

A health and safety policy statement is in place to ensure a safe working environment at all times. The health and safety policy statement also demonstrates our responsibility to customers, suppliers and contractors and we maintain communication of the policy at all levels throughout the Group.

Global social responsibility

Carclo is a global company and we take seriously our responsibilities to maintain an ethical supply chain towards those communities in which we operate. With full control over our manufacturing facilities in low-cost regions we commit to be a responsible producer.

Community involvement

We encourage our businesses to support their local communities through charitable support and education initiatives and responsibility for this is devolved to local management.

We fully support the Indian government's corporate social responsibility ("CSR") scheme via our facility in Bangalore. During the last year our Indian facility helped to build a pre-school which provides room for 40 children under five. The school was built using eco-friendly materials and aimed to minimise the use of cement and plastering.

Our CTP facility in Latrobe, USA held its annual Toys for Tots drive in November 2022, which included inviting our veterans to shop for toys with money donated by Carclo, followed by Breakfast with Santa. The Latrobe office also carried out a Back to School Supply Drive, with the donations received going to local children in foster care.

The Head Office wellbeing team hosted a fundraising event on 30 March 2023 and raised a total of £275 for charity.

Charitable donations

Carclo employees participate in a variety of activities to support both local and national charities.

Some highlights from our year include our Aerospace business supporting its local training board which is run as a charity through EDETA (Edinburgh and District Employers Training Association). The charity provides for apprentice training mainly in the Lothians but also has some input into the Borders and Fife regions of Scotland.

We also make charitable donations in support of local communities. In the 2022/23 year, the Group donated £14k to charity (2021/22: £14k).

It is the Group's policy not to make political donations and no such donations were made in the year (2021/22: £nil).

Health and safety case study

This is the first time we have held a safety week across all 13 Carclo sites, with the participation of all employees. Activities included presentations, training, competitions, drills and quizzes, with all employees committing to our Zero harm in the workplace policy. While the safety week may have finished, we will continually focus on and monitor the effectiveness of our safety measures, and ensure that employees at all levels of the organisation are actively involved in creating a safer work environment.

Ricky Yin
Group Carclo Cares, QA and EHS Manager

Responsible operations continued

Greenhouse gas emissions and energy consumption

The Group is required to report its annual greenhouse gas ("GHG") emissions pursuant to the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 ("Regulations"). The 2018 Regulations, known as Streamlined Energy and Carbon Reporting, came into effect on 1 April 2019. We have collated data during the year to 31 March 2023 and are reporting emissions and energy consumption for this period to coincide with the Group's financial reporting period.

Greenhouse gas emissions
Year-on-year GHG emissions: location-based methodology

Emissions from:	2023	2022	Percentage change
Scope 1 (tCO_2e) Gas, fuel and industrial emissions	**559**	718	(22.1)%
Scope 2 (tCO_2e) Electricity	**21,711**	21,403	1.01%
Total (tCO_2e)	**22,270**	22,121	0.01%
Group revenue (£ million)	**143.4**	128.6	11.5%
Intensity ratio (tCO_2e per £1 million of revenue)	**155.3**	172.0	(9.7)%

Energy consumption

Carclo consumed a total of 47,446 MWh of energy globally during 2022/23 (2021/22: 47,383 MWh) comprising UK 2022/23 15,458 MWh (2021/22: 15,790 MWh) and rest of the world 2022/23 31,988 MWh (2021/22: 31,593 MWh). UK tCO_2e 2022/23 3,272 (2021/22: 3,446), rest of the world 2022/23 18,998 (2021/22: 18,675).

$$\frac{\text{Total energy consumed 47,446 MWh}}{\text{Total revenue £143.4 million}} = \text{330.9 MWh/£ million of revenue}$$

The intensity ratio of energy consumption has decreased this year by 9.7% as a result of increased turnover and energy consumption being largely unchanged.

The prior year numbers have been re-stated due to an incomplete survey in 2021/22. Premises at Roseytown in the USA were not included in the figures in 2021/22 and the electricity consumption in our Czech business was understated.

Energy performance – electricity (MWh)

From April 2022 to March 2023 the total electricity consumption was 44,649 MWh and it has been calculated that 2022/23 electricity consumption is unchanged compared to the same period in 2021/22.

Energy performance – natural gas (MWh)

From April 2022 to March 2023 the total natural gas consumption was 2,420 MWh and it has been calculated that 2022/23 natural gas consumption is 4.7% higher than in the same period in 2021/22.

Energy performance – direct transport (MWh)

From April 2022 to March 2023 the total direct transport consumption was 378 MWh. Whilst it is the smaller proportion of the total Scope 1 emissions, it has been calculated that 2022/23 transport energy consumption is 82.8% lower than in the same period in 2021/22, due to our strategic shift towards minimising internal transport and encouraging customers to collect their own merchandise.

Responsible operations continued

Over the past year, the Group has been proactive in implementing a diverse portfolio of energy management initiatives, underscoring our unwavering commitment to environmental sustainability. This momentum has been bolstered by a surge in energy prices across Europe, which has accelerated our strategic investments in energy-efficient projects.

A significant ongoing energy conservation project involves a joint investment with our customers to transition production from high-energy-consuming hydraulic machines to fully electric alternatives. The first two phases of actually divesting hydraulic machines have been successfully completed, with the final phase set to be executed in the forthcoming financial year.

As a result of these improvements and enhancing our operational efficiency, we've already seen a reduction in our energy intensity ratio of nearly 10%. Nevertheless, we remain focused on our goal for the Zelda project – an additional 5% annual reduction in energy use per kilo of good products produced.

In our Czech facility, we have not only replaced a hydraulic machine with our more energy-efficient electric counterpart but also consolidated operations into a single building, achieving considerable electricity savings through the decommissioning of other buildings.

In line with our Company-wide transition to LED lighting, our Bangalore site has implemented notable enhancements by coupling LED lights with motion sensors throughout the premises. Moreover, they are in the process of installing speed regulators in exhaust fans to optimise energy efficiency further.

Our Taicang site has also successfully transitioned to LED lamps, facilitating improved illumination and lower energy consumption. Additional steps taken include upgrading the heating band of selected machines for superior thermal radiation, optimising production cycles, and reducing the use of air conditioning in office spaces.

Bruntons undertakes regular maintenance of its machinery including their ceiling heaters to maximise performance, thereby ensuring energy efficiency. Strategic investments have been made in state-of-the-art, energy-efficient machinery, and smart thermostats have been installed in office areas for more effective climate control.

Our French facility has made marked strides in minimising energy usage by reducing the office and workshop temperature to 19°C. Furthermore, in March 2023, they transitioned from a diesel car to an electric variant, making a substantial contribution towards cleaner transportation.

Methodology and exclusions

We have reported on all the emission sources required under the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. These sources fall within our consolidated financial statements. We do not have responsibility for any emission sources that are not included in our consolidated statement, other than those highlighted below.

This report is aligned with the GHG Protocol methodology. The GHG Protocol establishes comprehensive global standardised frameworks to measure and manage greenhouse gas emissions from private and public sector operations, value chains and mitigation actions. The framework has been in use since 2001, and forms a recognised structured format, to calculate a carbon footprint. The total electricity conversion to CO_2 is on a location-based basis. Energy consumption is expressed in kilowatt hours ("kWh"), as this is the unit specified by SECR legislation. Defra 2019 emissions factors have been utilised for UK sites and appropriate country-specific emissions factors have been utilised for overseas operations, using published emissions factors by the United States Environmental Protection Agency and the International Energy Agency.

Data has been collated from source documentation or, where this has been impracticable, using estimates.

Task Force on Climate-related Financial Disclosures ("TCFD")

In 2022/23 the Group has complied with the requirements of LR9.8.6R by making climate-related disclosures consistent with all TCFD recommendations except for:

Strategy disclosure b), c) and Metrics and Targets disclosure c).

The Group is fully committed to working towards full disclosure in our 2023/24 Annual Report and Accounts. Actions being taken are described in the relevant disclosures to achieve this full disclosure.

The Task Force on Climate-related Financial Disclosures ("TCFD") recommendations constitute a robust reporting approach for organisations to disclose how the organisation recognises the importance of the risks and opportunities that are evolving with the changing climate conditions, how the organisation identifies those risks and opportunities and how the organisation will act on those risks and opportunities.

The TCFD recommendations were established by the Financial Stability Board ("FSB") and they seek to better inform investors of the climate change implications for businesses.

Carclo plc acknowledges that climate change presents both risks and opportunities in the future. Continued greenhouse gas emissions will lead to increasing global warming, with the best estimate of reaching 1.5°C in the near term in considered scenario modelling and pathways. Every increment of global warming will intensify multiple and concurrent hazards. Deep, rapid and sustained reductions in greenhouse gas emissions would lead to a discernible slowdown in global warming within around two decades and, also, to discernible changes in atmospheric composition within a few years. (IPCC AR6 Synthesis Report 2023)

The Board outlines below the recommended disclosures from the 4 main pillars:

Governance, Strategy, Risk Management and Metrics/Targets.

Governance

Disclosure a.
Describe the Board's oversight of climate-related risks and opportunities.

Carclo plc Board

- Oversees all aspects of TCFD and ESG, with ultimate responsibility for determining future ESG and Climate strategy and prioritisation of key focus areas
- Individual Board member identified as lead on climate and broader ESG matters
- The Board will review potential goals and targets over the next twelve months, following a thorough climate-related risks and opportunities assessment later this year and this will be used to guide the Board's ESG/Climate strategy
- Ensures the Group maintains an effective risk management framework, which includes climate-related risks and opportunities

Climate strategy ↓ ↑ **Reports**

The Board delegates oversight of ESG and Climate strategy to the following Committees

Group Audit and Risk Committee

- Meets four times per year
- Oversees the Group's financial statements and non-financial disclosures, including ESG and Climate ("TCFD")
- Supports the Climate and ESG strategy by ensuring the risks, including ESG and Climate risks and opportunities, People, Health and Safety, are effectively managed

Group Executive Committee ("GEC")

- Meets twelve times per year
- The Group Executive Committee has responsibility for implementation of the Group's ESG and Climate strategy, with support from the ESG/Climate Steering Group and executive management teams

Climate strategy implementation ↓ ↑ **Reports**

ESG/Climate Steering Group

- Meets at least four times per year
- The Steering Group comprises: Group Finance and Business Unit General Management
- Focus areas: Identify risks and opportunities, implement strategy and actions to mitigate identified risks and evaluate opportunities

Climate implementation and targets ↓ ↑ **Reports**

Business units

- The business units carry out the implementation of the ESG and Climate strategies, both risks and opportunities, and monitor and report progress against set metrics

Task Force on Climate-related Financial Disclosures ("TCFD") continued

Governance continued

Disclosure a. continued
Our governance structure, presented on the previous page, demonstrates how the Board has oversight of our response to climate-related risks and opportunities, which is being embedded throughout the organisation. The Board sets the overall strategy which is then delegated to the Group Executive Committee ("GEC") which has overall responsibility for overseeing the implementation, delegating the implementation tasks to the ESG/Climate Steering Group via the business unit management teams. These specific tasks will be determined following the risk and opportunities assessment to be carried out by our climate consultancy partner.

Disclosure b.
Describe management's role in identifying, assessing and managing climate-related risks and opportunities.

The Board delegates its authority to the GEC to manage the overall Group strategy, including the consideration of climate-related matters amongst broader ESG matters. It is also responsible for managing financial risks, including those of meeting the Group's future climate-related goals.

A Non-Executive Director, Eric Hutchinson, has been appointed as the lead person at Board level with responsibility for ESG matters including climate.

The GEC is composed of the CEO, CFO, CTP division and Speciality Business (Aerospace and Optics) leaders.

The Steering Group is scheduled to meet at least four times per year to develop plans for delivering and embedding a future climate strategy across the Group's business units. The Group will monitor and track progress against the strategy and report these, together with recommendations and a list of actions, to the GEC. It is a cross-functional working group, composed of Group Finance and Business Unit General Management, ensuring a representative from each business area is part of the group, and works closely with the business unit management to ensure ESG and Climate strategies are embedded in the daily operations of the businesses, so that risks and opportunities can be identified, and action plans can be developed to mitigate the risks and develop opportunities for the business.

Action plans will be implemented by the businesses and reported upstream to the Steering Group. Material risks that are identified are to be added to the Group's Risk Register, which is overseen by the Audit and Risk Committee. The Audit and Risk Committee report is outlined on pages 68 to 71 The Principal Risks and Uncertainties are outlined on pages 46 to 55.

Strategy

Disclosure a.
Describe the climate-related risks and opportunities that the organisation has identified over the short, medium and long term.

In 2022 we undertook a stakeholder engagement exercise across the business to better understand the potential impacts of climate change and how some risks may already be being mitigated and opportunities leveraged. At the time, no material risks or opportunities were identified, however we continue to use this information to inform our process to identify, assess and manage climate-related risks and opportunities.

We appointed an external climate consultancy in 2023 to undertake a more detailed risk and opportunities assessment and they will report back later this year, ensuring alignment to the strategy pillar for 2023/24 reporting.

Task Force on Climate-related Financial Disclosures ("TCFD") continued

Strategy continued

Disclosure b.
Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning.

The Board will look to integrate mitigation actions into its three-year business planning processes to ensure resilience against the risks and capitalise on the potential opportunities, following the assessment being performed by our external consultants later this year.

These will be communicated to the business units for them to develop site-level action plans supported by the ESG/Climate Steering Group and include these in their budgetary and financial planning processes, in particular health and safety, capital expenditure, and infrastructure maintenance.

Disclosure c.
Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios including a 2 degree or lower scenario.

A full scenario analysis will be undertaken later this year. This will cover multiple climate scenarios, by our third-party consultants, to support our next Climate and ESG disclosure, which we will report on in full in our 2024 Annual Report and Accounts.

Risk Management

Disclosure a.
Describe the Company's process for identifying and assessing climate-related risks and opportunities.

Identifying

A decentralised approach to identify risks facing the business is used to assess risks associated with the relevant activities and allows for the identification of location or activity specific risks. This will include detailed climate-related risks and opportunities once identified by our external consultants later this year.

Each division is responsible for independently identifying climate risks facing their business unit on an annual basis and submitting these to the central ESG/Climate Steering Group by way of a completed questionnaire, alongside any additional relevant information. The Steering Group will then share with the businesses any other identified risks which may be applicable to them. This will ensure that the identification process is comprehensive and consistently evaluated across all divisions.

Assessing

When submitting identified climate risks to the ESG/Climate Steering Group, divisions will be asked to evaluate each risk. Assessments will be added to categorise each risk (e.g. natural resource depletion, energy savings etc.) and the relevant timescales for each risk, the latter of which is aligned to Carclo's general reporting framework in the short term (0 to 3 years), medium term (4 to 10 years) and long term (10+ years). Furthermore, divisions will evaluate the severity of each risk according to a defined risk scale. The ESG/Climate Steering Group will then amalgamate the feedback provided by the divisions and moderate the results to ensure that they are appropriately weighted from a central risk perspective of the business. This robust risk identification and assessment process will enable the business to appropriately prioritise management of climate-related risks.

Disclosure b.
Describe the Company's process for managing climate-related risks and opportunities.

The individual business units have a local risk register, which is updated on an ongoing basis as risks are identified. The registers currently cover Financial, Strategic, Human Resources, Legislation, and other risks. In the future ESG and Climate risks will be separately identified following the assessment being carried during this year. All risks are rated for severity and likelihood and prioritised accordingly.

The business units will be required to report on their progress in addressing key risks including Climate and ESG in the monthly management reporting and review meetings.

Climate-related risks, where material to the business units, will be added to these registers, as well as the Group Risk Register, which is managed ultimately by the Audit and Risk Committee.

Disclosure c.
Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.

The Board delegates responsibility for the organisation's overall risk management to the Audit and Risk Committee.

The Audit and Risk Committee reviews the organisation's risk framework on an annual basis. New and emerging risks, including climate-related risks, are assessed, and, if they are considered to have a potential material impact to the organisation's financial performance, they are added to the overall risk register for future monitoring and evaluation. The Audit and Risk Committee report is outlined on pages 68 to 71.

Task Force on Climate-related Financial Disclosures ("TCFD") continued

Metrics and Targets

Disclosure a.
Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.

Carclo plc has been calculating its Scope 1 and Scope 2 emissions data since 2020 for inclusion in the Annual Report and Accounts. The data is compiled by an external organisation, who, from the data supplied by our business units, calculate the emissions and our intensity ratio.

The CTP division utilises energy-intensive equipment as part of its manufacturing processes. The division has commenced monitoring the energy required to produce a standard amount of finished product and is developing targets and action plans to drive overall energy efficiency.

We intend to use the Scope 1 and Scope 2 data to set future targets for our business units to improve our intensity ratios. We have ongoing initiatives currently being performed by our businesses, which are outlined in our greenhouse gas emissions report on pages 34 and 35.

Disclosure b.
Disclose Scope 1 and Scope 2 and, if appropriate, Scope 3 greenhouse gas ("GHG") emissions and the related risks.

A detailed section relating to Scope 1 and Scope 2 emissions and our intensity ratio is laid out on page 34 of this Annual Report and Accounts.

Disclosure c.
Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

Having accurately measured and disclosed our Scope 1 and Scope 2 emissions for 2022/23, we intend to review the material contributions to our carbon footprint and assess our ability to further improve our intensity ratios.

Looking to the future, where possible we will improve our data collection processes to calculate our Scope 3 emissions.

Carclo aims to increase the availability of climate-related metrics to support the Group in setting future targets associated with managing potential climate-related risks and opportunities.

Finance review

Our new strategy places a greater emphasis on operational performance improvement and cash generation in response to the challenges posed by high inflation and rising interest costs.

David Bedford
Chief Financial Officer

As we reflect on the past fiscal year, it's heartening to see how our Group has navigated the economic landscape, delivering a robust 11.6% growth in revenue (£143.4 million), or a solid 3.8% at constant currency, up from £128.6 million in 2021/22. This demonstrates not only the resilience of the markets we serve, but also the strength and continuity of our key customer relationships.

Our underlying operating profit came in at £5.9 million, compared to £6.1 million (or £6.7 million at constant currency) in the previous year, resulting in a return on sales of 4.1%, down slightly from 4.7% last year. This shift in profitability was primarily influenced by escalating cost inflation, most notably a sharp increase in energy costs, and the challenge these pose in terms of timely pass-through to customers.

Exceptional net costs for the year amounted to £4.7 million, compared to £1.4 million gain in 2021/22. The majority of these costs, £3.4 million to be exact, were cash settled. These costs encompassed £3.4 million in rationalisation expenses, £0.9 million stemming from the termination of future supply agreements, £0.9 million in doubtful debt and associated inventory provision, and £0.3 million related to legacy health claims. These costs were partly offset by a gain of £0.8 million from the disposal of surplus properties.

Overall, the financial year proved to be challenging but also demonstrated the Group's resilience and adaptability. Moving forward, we continue to focus on our commitment to creating long-term shareholder value and maintaining the trust of our strategic customers.

Statutory operating profit is down £7.7 million on prior year to £1.2 million (2021/22: £8.9 million).

During the year, we experienced an increase in net finance costs, primarily due to rising interest rates, which amounted to £3.7 million (2021/22: £3.0 million). This figure includes notional pension deficit interest charged of £0.7 million (2021/22: £0.7 million).

Taxation charge for the year was £1.4 million (2021/22: £0.8 million). The 2021/22 taxation charge benefited from a deferred tax credit of £0.7 million, being the recognition of a deferred tax asset on the UK projected profits at the time. However, this year, we have seen the reversal of that deferred tax asset due to the effects of the restructuring plans.

Statutory loss/profit after tax was £4.0 million loss (2021/22: £5.8 million profit) on all operations, and £4.0 million loss (2021/22: £5.1 million profit) on continuing operations, giving a statutory loss per share on all operations of 5.4 pence (2021/22: 7.9 pence profit), and 5.4 pence loss on continuing operations (2021/22: 7.0 pence profit).

Underlying profit after tax fell to £0.3 million (2021/22: £2.3 million), giving an underlying EPS of 0.4 pence (2021/22: 3.1 pence), on underlying operating profit of £5.9 million, down 2.6% on prior year (2021/22: £6.1 million).

Cash generated from operations was £7.8 million and 14.7% higher than the prior year (2021/22: £6.8 million), reflecting the change in strategy from a focus on top-line growth to cash generation via operational improvements and robust working capital control. Efficient management of working capital is a key contributor to cash performance. In addition, during the year a sale and leaseback raised £2.4 million after costs.

Cash generated by the Group was principally utilised to make capital investment and lease repayments, pension deficit repair contributions, scheduled bank loan repayments and interest payments. The Group's full cashflow statement is set out on page 117.

Finance review continued

In recognition of the shift in strategic priorities we have refreshed the Group's key externally reported KPI's to those which we consider will best demonstrate the progress being made towards achieving our strategic goals. These are set out on pages 26 and 27.

A reconciliation of statutory to underlying non-GAAP financial measures is provided on pages 199 and 200.

Net debt

During the year, we redirected our investment in capital expenditure towards a rapid-payback, focusing on our continuous improvement strategy aimed at supporting asset performance and utilisation. Tangible additions were £5.8 million (2022: £9.7 million) mainly in support of major customer programmes. Of this investment, £3.5 million (2022: £6.8 million) was delivered via leasing.

Net debt, including IFRS16 lease liabilities, increased in the year by £2.0 million to £34.4 million (2022: £32.4 million). Of this increase £1.5 million was due to foreign currency movements. Net debt excluding leases increased £1.0 million to £22.5 million (2022: £21.5 million). Following the shift in strategic focus, improvements in our cash generation have resulted in a reduction of net debt including lease liabilities during H2 of £2.5 million.

CTP division

CTP revenue of £136.8 million was up 10.5% (2.5% at constant currency) (2021/22: £123.9 million) with underlying volumes broadly flat.

CTP divisional operating profit before exceptional items was £7.3 million, £1.1 million down on the prior year, excluding £2.1 million of non-recurring income in the form of a US government COVID-19 grant.

In the face of high cost inflation, particularly in labour and energy prices, our CTP division encountered significant hurdles. The tightened labour markets, predominantly in the US, imposed further complications in the recruitment and retention of labour. These challenges underline the rapidly changing economic conditions we find ourselves grappling with, and underscore the necessity of our ongoing strategic adaptations. Although there were delays in passing on the impact of inflation to customers, CTP made significant progress during H2 in implementing both temporary energy surcharges and permanent pricing increases, resulting in an improved margin performance, particularly in the final quarter of the year.

The Group was met with an unforeseen development in December 2022 when a prospective global new OEM customer informed us following the completion of the design and engineering phase, due to a contraction in the end-market demand for COVID-19 testing, the customer decided to suspend progression into the production phase of the original ten-year Framework Agreement. However, we moved swiftly and strategically to mitigate potential financial implications. On 30 May 2023, we successfully signed a settlement agreement that effectively neutralises the Group's financial exposure arising from the premature termination of this contract. This settlement is a testament to our resilience and flexibility in navigating unexpected circumstances.

Furthermore, we were able to quickly pivot and rapidly implement a plan to repurpose the production capacity assigned to this project. The majority of the capital investments, inclusive of infrastructure such as buildings, clean rooms, and state-of-the-art equipment have been reallocated to enhance projects with existing strategic partners. We also signed a mutually satisfactory settlement agreement with the customer concerning working capital and recompense for business disruption.

Finance review continued

CTP division continued
There is a considerable potential to elevate CTP's operational performance even further, and we have taken steps to seize this opportunity. We've initiated fresh strategies designed to bolster both asset utilisation and our ability to meet customers' needs through factory specialisation. Our commitment to ceaseless improvement propels these initiatives, backed by the recent implementation of real-time operational data capture and reporting systems. This approach enables us to react more swiftly to developments, continuously refine our operations, and maintain our mission of delivering superior customer value.

Aerospace division
In the Aerospace sector, we saw an impressive uptick in revenue to £6.6 million, a surge of 40.9% (or 39.4% at constant currency), compared to £4.7 million in 2021/22. This marks a return to near pre-COVID-19 levels for this division, an accomplishment underpinned by strong operating profitability of £1.5 million for the year, more than doubling the prior year's £0.7 million. The market has demonstrated a robust recovery, and we have been agile in leveraging this momentum, securing increased order volumes predominantly from our existing customer base. Our strategy to strengthen and deepen relationships with these customers has evidently paid off, underlining the importance of customer retention in our overall growth plan.

Central costs
In terms of our overheads, we have seen a minor reduction in other Group and central underlying costs, which amounted to £2.9 million for this fiscal year, compared to £3.0 million in 2021/22. This slight decrease reflects our ongoing commitment to prudent cost management and operational efficiency. We will continue to seek ways to streamline our central expenses without compromising our quality of service we deliver to the business.

Total Group Bank facilities
On 2 September 2022 the Group successfully refinanced the facilities with the Company's lender, concluding a first amendment and restatement agreement relating to the multicurrency term and revolving facilities agreement dated 14 August 2020.

As at 31 March 2023, total UK bank facilities were £32.8 million, of which £3.5 million related to a revolving credit facility (maturing on 30 June 2025) and £29.3 million in term loan facilities. £1.4 million of the term facility will be amortised by 31 March 2024 and a further £2.2 million by 31 March 2025. The balance becomes payable by the maturity date, 30 June 2025.

As previously reported at the half-year, increasing interest rates had limited the headroom on the Group's banking covenants, principally interest cover, which prompted the Group to seek an adjustment of its banking covenants to ensure sufficient funding.

Since then, we have worked closely with our bank, who have remained supportive throughout, and agreed to adjust the interest cover covenant at both the December 2022 and March 2023 testing points. As announced on 23 June 2023, we are pleased to confirm that we have now agreed on revised covenants covering the period to maturity at 30 June 2025, providing the required level of certainty over our funding.

Moving forward, the Group remains committed to prioritising the strengthening of its balance sheet and seeking alternative sources of bank financing for its growing US operations in the medium term. We will continue to closely monitor market conditions and work proactively with our bank to ensure our ongoing financial stability and success.

Defined benefit pension scheme actuarial valuation
The last triennial actuarial valuation of the Group pension scheme was carried out as at 31 March 2021. This reported a significantly reduced actuarial technical provisions deficit of £82.8 million (2021/22: £90.4 million based upon the 31 March 2018 valuation).

The statutory accounting method of valuing the Group pension scheme deficit under IAS 19 resulted in an increase in the net liability to £34.5 million at 31 March 2023 (31 March 2022: £26.0 million).

Over the year, the Group's contributions to the scheme were £4.1 million (2021/22: £3.9 million).

During the year there was significant volatility in investment markets with bond and gilt yields spiking in the aftermath of the September 22 "mini budget". The pension, which was maintaining an 80% liability hedge via Liability Driven Investments ("LDI") and bond holdings, experienced a significant fall in the value of these assets, albeit less than the fall in the equivalent of the liabilities being hedged. Other scheme assets including property and global equity funds also experienced negative returns during the period with the resulting increase in the IAS 19 deficit.

Treasury
The Group faces currency exposure on its overseas subsidiaries and on its foreign currency transactions. In addition, as set out in the principal risks and uncertainties as presented in the Annual Report and Accounts, the plc is reliant on regular funding flows from the overseas subsidiaries to meet banking, pension and administrative commitments. To manage this complexity, we have enhanced the Group's management of cash, debt and exchange risks by strengthening our treasury function.

The Group reports trading results of overseas subsidiaries based on average rates of exchange compared with sterling over the year. This income statement translation exposure is not hedged as this is an accounting rather than cash exposure and as a result the income statement is exposed to movements in the US dollar, euro, renminbi, Czech koruna and Indian rupee. In terms of sensitivity, based on the 2022/23 results, a 10% increase in the value of sterling against these currencies would have decreased reported profit before tax by £0.8 million.

Finance review continued

Dividend

Given the restrictions on the payment of dividends contained within the amended and restated bank facilities agreement and the absence of distributable reserves required to make dividend payments, the Board is not recommending the payment of a dividend for the financial year 2022/23 (2021/22: £nil). Under the terms of the restructuring agreement, the Group is not permitted to make a dividend payment to shareholders up to the period ending June 2025.

Alternative performance measures

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

This results statement includes both statutory and adjusted non-GAAP financial measures, the latter of which the Directors believe better reflect the underlying performance of the business and provides a more meaningful comparison of how the business is managed and measured on a day-to-day basis. The Group's alternative performance measures and KPIs are aligned to the Group's strategy and together are used to measure the performance of the business and form the basis of the performance measures for remuneration. Underlying results exclude certain items because, if included, these items could distort the understanding of the performance for the year and the comparability between the periods. A reconciliation of the Group's non-GAAP financial measures is shown on pages 199 and 200.

We provide comparatives alongside all current year figures. The term "underlying" is not defined under IFRS and may not be comparable with similarly titled measures used by other companies.

All profit and earnings per share figures relate to underlying business performance (as defined above) unless otherwise stated. A reconciliation of underlying measures to statutory measures for 2022/23 is provided below:

£000	Statutory	Exceptional items	Underlying
CTP operating profit	4,569	(2,752)	7,321
Aerospace operating profit	1,520	–	1,520
Central costs	(4,860)	(1,958)	(2,902)
Group operating profit from continuing operations	1,229	(4,710)	5,939
Net finance expense	(3,749)	–	(3,749)
Group (loss)/profit before taxation from continuing operations	(2,520)	(4,710)	2,190
Taxation expense	(1,437)	–	(1,437)
Group (loss)/profit for the period from continuing operations	(3,957)	(4,710)	753
Profit on discontinued operations, net of tax	–	–	–
Group (loss)/profit for the period	**(3,957)**	**(4,710)**	**753**
Basic (loss)/profit per share (pence)	**(5.4)p**	**(5.8)p**	**0.4p**

Finance review continued

Alternative performance measures continued

The exceptional items comprise:

£000	Group[1]
Restructuring and rationalisation costs	(3,404)
Costs arising from cancellation of future customer supply agreement	(877)
Doubtful debt and related inventory provisions	(896)
Costs in respect to legacy health related claims	(302)
Profit on disposal of surplus property	769
Total exceptional items	**(4,710)**

1. There were no exceptional items in respect to discontinued operations in the year to 31 March 2023.

Post balance sheet events and going concern

Post balance sheet events

Upon completion of the Design and Engineering phase of our supply contract, we received an unexpected notice from a leading global OEM customer in December 2022. Citing a decline in the end-market demand for COVID-19 testing, they chose not to advance into the project's production phase. However, by 30 May 2023, we reached a settlement agreement that largely mitigates the financial risk the Group faced due to the early termination of the contract. The Group has recognised an exceptional cost in the year to 31 March 2023 of £0.9 million, most of which is to recognise assets on balance sheet at recoverable amount, see note 6 for further details. The Group will recognise an exceptional gain in the income statement to 31 March 2024 of approximately £0.6 million. Although the details of the agreement remain confidential, full and final settlement was received on 21 June 2023.

On 22 June 2023 the Group's lending bank, agreed to an adjustment of the interest and the net leverage covenants related to the facilities due to mature on 30 June 2025. On 1 June 2023, a voluntary repayment of £0.4 million was made and on 30 June 2023, a further voluntary repayment of £3.3 million was made.

Going concern

The financial statements are prepared on the going concern basis.

Group performance during the year has enabled capital investment to be made whilst retaining a stable financial position with net debt excluding lease liabilities as of 31 March 2023 increasing to £22.5 million (2022: £21.5 million).

Net debt including lease liabilities at 31 March 2023 was £34.4 million (2022: £32.4 million), with the principal reason behind the increase being foreign exchange movements of £1.5 million.

On 2 September 2022, the Group successfully refinanced with the Company's bank, concluding a first amendment and restatement agreement relating to the multicurrency term and revolving facilities agreement dated 14 August 2020. The debt facilities available to the Group at 31 March 2023 comprise a term loan of £29.3 million, of which £1.4 million will be amortised by 31 March 2024, and a further £2.2 million amortised by 31 March 2025. The balance becomes payable by the termination date, 30 June 2025.

At 31 March 2023, the term loans were denominated as follows: sterling 14.2 million, US dollar 13.3 million and euro 4.9 million. The facility also includes a £3.5 million revolving credit facility, denominated in sterling, maturing on 30 June 2025.

Since the year end there have been no significant changes to the Group's liquidity position. The term loan balances stood at sterling 10.2 million, US dollar 13.3 million and euro 4.9 million, totalling £27.0 million on 30 June 2023, with undrawn facilities of £1.5 million on the RCF.

Finance review continued

Going concern continued

As part of the original bank financing in August 2020 the Group became subject to four bank facility covenant tests. The quarterly covenants to be tested are:

- underlying interest cover;
- net debt to underlying EBITDA;
- core subsidiary underlying EBITA; and
- core subsidiary revenue.

Core subsidiaries are defined as Carclo Technical Plastics Ltd; Bruntons Aero Products Ltd; Carclo Technical Plastics (Brno) s.r.o; CTP Carrera Inc and Jacottet Industrie SAS, with CTP Taicang Co. Ltd and Carclo Technical Plastics Pvt Co Ltd being treated as non-core for the purposes of these covenants.

Following a more than doubling of the base rate in the first half of 2022/23, the Group reassessed its forecasts and concluded there was insufficient headroom available to meet all the agreed banking covenants in the event of certain downside scenarios taking place. Breach of any of these covenants could lead to the creditors calling in their debt, leaving the plc insolvent. As a result, at the half year, in recognition of a potential covenant breach, the Group issued a material uncertainty warning over its ability to continue trading as a going concern.

Since that time the Group has worked with the bank to amend the covenants and agreed adjustments to the Group's interest cover covenant for both the December 2022 and March 2023 testing points.

In December 2022 the Group announced the cancellation of a new business contract that would materially impact the results for 2022/23. Further discussions were held with the bank and, following a review of the Group's three-year plan up to March 2026, on 22 June 2023 the bank agreed to the Group's request to further amend the interest cover covenant to June 2025 and to an adjustment to the net debt to underlying EBITDA covenant to December 2023.

The banking covenants and thresholds set out in the recently renegotiated banking agreement are assumed to be in place throughout the going concern assessment period, and the legal documents surrounding this agreement have now been signed.

A schedule of contributions is also in place with the pension trustees with an agreed £3.5 million to be paid annually until 31 October 2039. Additional contributions also agreed are 25% of any surplus of 2023/24 underlying EBITDA over £18 million payable from 30 June 2024 to 31 May 2025, extending to 26% of any 2024/25 surplus payable from 30 June 2025 to 31 May 2026.

In addition, the pension scheme has the benefit of a fifth covenant to be tested each year up to and including 2023. The test requires any shortfall of pension deficit recovery contributions when measured against Pension Protection Fund priority drift (which is a measure of the increase in the UK Pension Protection Fund's potential exposure to the Group's pension scheme liabilities), to be met by a combination of cash payments to the scheme, plus a notional (non-cash) proportion of the increase in the underlying value of the CTP and Aerospace segments based on an EBITDA multiple for those businesses which is determined annually. This test will be completed on the 31 March 2023 audited financial statements and management expect this covenant to be met.

The Group is subject to a number of key risks and uncertainties, as detailed in the Principal risks and uncertainties section on pages 46 to 55. Mitigation actions are also considered in this section. These risks and uncertainties have been considered in the base case and severe downside sensitivities and have been modelled accordingly.

The Directors have reviewed cash flow and covenant forecasts to cover the period at least twelve months from the date of signing of these consolidated financial statements considering the Group's available debt facilities and the terms of the arrangements with the Group's bank and the Group pension scheme.

The base case forecast includes assumptions around sales, margins, working capital and interest rates. The sensitivity analysis has considered the risks facing the Group and has modelled the impact of each in turn, as well as considering the impact of aggregating certain risk types and shows that the Group is able to operate within its available facilities and meet its agreed covenants as they arise. Furthermore, the Directors have reviewed sensitivity testing, modelling a range of severe downside scenarios. These sensitivities attempt to incorporate identified risks set out in the Principal risks and uncertainties section of this report.

Severe downside sensitivities modelled included a range of scenarios modelling the financial effects of: loss of business from discrete sites, an overall fall in gross margin of 1% across the Group, a fall in Group sales of 3% matched by a corresponding fall in cost of sales of the same amount, and interest rate risk.

The Group is not exposed to vulnerable sectors or vulnerable countries but does have certain key customers, which create risks and uncertainties. These risks and uncertainties are documented, and the mitigating actions being taken are covered in detail in the Principal risks and uncertainties section, on pages 46 to 55.

On the basis of this forecast and sensitivity testing, the Board has determined that it is reasonable to assume that the Group will continue to operate within the facilities available and will be able to adhere to the covenant tests to which it is subject throughout at least the twelve-month period from the date of signing the financial statements.

Accordingly, these financial statements are prepared on a going concern basis.

David Bedford
Chief Financial Officer
19 July 2023

Principal risks and uncertainties

Carclo defines risk as uncertainty, whether positive or negative, that will affect the outcome of an activity or intervention.

The Group operates a risk management framework to direct and control the organisation with regard to risk.

Carclo's appetite for risk is categorised across the Strategic, Operational, Financial and Compliance risk categories of the business and is set out below. This operates as a guide to management as to appetite levels in approaching risk to help set priorities and levels of focus.

Risk category	Risk appetite	Description
Strategic	**Moderate**	The Group is prepared to take moderate risks to realise its ambitions. In doing so, we aim to strike a balance between our socio-economic role (low risk acceptance) and our commercial targets (higher risk acceptance).
Operational	**Very Low**	The Group focuses on ensuring the efficiency and continuity of business activities. We aim to reduce the risks that threaten this continuity as much as possible. In the area of safety and security, we do all we can to avoid risks that could put our customers, internal and external employees or visitors in danger. Therefore, our risk acceptance in this regard is very low.
Financial	**Low**	We aim to maintain a solid financial position in order to provide stability and value add to our stakeholders including shareholders, our bank, the pension scheme trustees, our suppliers, and customers, who are all connected to the Carclo chain. The Group is not prepared to take risks that could jeopardise its credit ratings or harm its key financial relationships.
Compliance	**Zero**	The Group strives to comply with all applicable laws and regulations, with a particular focus on safety and security, environmental, competition, tendering and privacy/ information security laws.

Principal risks and uncertainties continued

The Board is responsible for creating the framework for the Group's risk management to operate effectively and for ensuring risk management activities are embedded in Carclo processes. The Board is also responsible for ensuring that appropriate and proportionate resources are allocated to risk management activities. The Board undertakes risk management to improve its understanding of the actual and potential risks to our business as well as its resilience, performance, sustainability and success, to enable it to assess and respond to new opportunities as they arise and to provide fair and balanced information to shareholders and potential shareholders.

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

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

Management is accountable to the Board for monitoring the system of internal control and for providing assurance to the Board that it has done so.

An essential part of the risk management framework is for management to monitor the framework's operation in order to provide assurance throughout the management organisation and to those responsible for governance that it is operating effectively.

Management is continually enhancing processes for ensuring that the risk management stages such as event identification, risk assessment, selection of responses and risk reporting are working.

This includes managers giving attention to ensuring that risk registers are being updated for new or changing risks and that internal controls are being adapted and developed where necessary.

Local management takes ownership of the specific risks relevant to their sphere of operations with the likely causes and effects recorded within the risk register held at site level, with corporate risks being identified within the Head Office Executive team. The risks are scored based on likelihood and severity to enable any significant risks to be readily identified and the appropriateness of mitigations to be considered. The risk registers are reviewed, challenged and debated to keep them up to date and relevant to our strategy. Risks are escalated as appropriate.

During the year all the key risks identified by the sites were evaluated and aggregated, with the highest scoring risks reviewed in detail at the Group Executive Committee meetings. This Committee then proposed the risks that it considered key to the running of the business for evaluation at the Board meeting.

The Board carried out a review of effectiveness which concluded that the risk management process that had been in place during the year was operating as documented, and continued to be appropriate.

A standing risk schedule is now included in the Board meeting papers which details the key risks currently identified alongside their mitigations and status of actions. This also includes emerging risks as identified at Group Executive Committee and Board meetings and instances of incurred losses against identified risks to enable assessment of the appropriateness of the mitigations.

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

The responsibilities of the Audit and Risk Committee are explained on pages 68 to 71. These responsibilities include the reviewing of the Group's risk management systems. These are primarily designed to mitigate risk down to an acceptable level, rather than completely eliminate the risk, and the review can provide only reasonable and not absolute assurance of effective operation, compliance with laws and regulations and against material misstatement or loss.

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

Listed on the following pages are the most significant risks that may affect the Group, although there are other risks that may occur and impact the Group's performance.

Principal risks and uncertainties continued

Risks	Mitigation	Change

01 Supply chain disruption and political uncertainty, leading to increasing input costs and extended lead times

Risks

The impact that the pandemic has had on global industries with diverse supply chain dependencies such as Carclo continues with increased supplier costs, delays, shortage of labour and materials resource having a significant impact on costs, profitability and customer service for the Group alongside many industries.

Furthermore, political uncertainty such as the Russian invasion of Ukraine and heightened risk of wider conflict, and other overseas trade issues such as US and China trade tariffs can naturally affect decisions by our customers to invest and therefore impact on our trading in those locations.

Mitigation

Process:
The Group Executive Committee ("GEC") and local management monitor and review relevant supply chain risks and political and trade developments regularly, using input from advisors as appropriate, and establish action plans and strategies accordingly, while engaging with trade associations and government bodies.

Increasing risk level:
Supply chain difficulties and increased costs continued throughout 2022 and into the first part of 2023, with continued headwinds forecast into the new financial year. Carclo continues to work tactically and specifically with priority areas of the supply chain and customer delivery to minimise supply disruption, net cost impact, and customer shortfalls in delivery. Post-pandemic materials and labour shortages, subsequent higher cost, and greater delays in order fulfilment exacerbated by the war in Ukraine continue to challenge companies, including Carclo.

Offsetting opportunities:
Management is putting an increased focus on operational effectiveness and efficiency to mitigate the effects of these challenges. In addition, during 2022 management undertook a review of its input costs and gross margins and has implemented a series of price increases in order to mitigate increased input cost.

Principal risks and uncertainties continued

Risks	Mitigation	Change

02 IT security breach, systems failures

Hacking and ongoing data security risk is a concern for businesses everywhere. For listed companies like Carclo the risk increases. There has also been a substantial rise in cyber-criminal activity such as ransomware and trojan deployment and an increase in sophistication and frequency of attacks has been seen. Stakeholders and insurers are increasing the thresholds required of cyber security greatly, and increased turbulence in the global economy has further heightened the risk of unwanted systems breaches.

Our IT systems process immense data volumes each day. These systems contain confidential information about our customers, employees and shareholders. A breakdown or system failure may lead to major disruption for the businesses within the Group, especially if network access is lost.

Breaches of IT security may result in unauthorised access to or loss of confidential information, breaches of government data protection legislation, loss or stoppage of the business, reputational damage, litigation and regulatory investigation or penalties.

Systems failure impact can have significant operational and financial ramifications if connection is unable to be restored quickly.

Security frameworks:
Carclo uses a security password-protected firewall to help minimise the risk of fraudsters hacking into the system, and has a number of security solutions to monitor and protect its users and maintains its systems with up-to-date versions of all its major applications.

During the last twelve months the Group has established a new dedicated IT security team in its global IT shared service centre in Bangalore, India. New cyber controls have been put in place and significant levels of cyber security training carried out across the Group. A further review of the Group's cyber resilience has been carried out and further actions are planned during 2023, including the introduction of multi-factor authentication across all Group sites.

Multi-level security and review:
IT management undertakes regular risk reviews to keep data secure and construct a layered environment that provides a countermeasure to the varying forms of cyber-attacks. Multiple security applications, layers of back-up, limiting access to core systems and restructuring IT in-house skill to proactively respond to emerging cyber threats are some of the countermeasures now activated.

Accelerating cloud-based systems and security migration:
As part of the Group's new IT strategy the Group is accelerating migration to cloud-based systems and security for underpinning protection of Group systems as well as cost-efficiency and effectiveness.

Reducing Disaster Recovery lead times:
The business has a defined Disaster Recovery process. Previous targets for full recovery in five days are now being superseded by new solution plans to roll out 24-hour data recovery and return to operations, which is tested each year.

Principal risks and uncertainties continued

Risks	Mitigation	Change

03 Reliance on major customers and credit risk

Risks

A substantial part of the Group's revenue is concentrated in a relatively small number of large customers. Details in relation to concentration risk have been disclosed in note 3. Any underperformance could lead to the loss of existing or future business. Further, other competitive factors or changes in customer behaviour could lead to a significant loss of revenue. Pressures from price increases required to offset the post-pandemic input cost inflation impact across the business and international economies could trigger opposition from customers and destabilise the relationship.

The largest concentration of customer risk is at the India plant with predominantly one large global customer.

We have a major end customer of the Aerospace business, who along with the rest of the sector experienced a downturn in the aerospace market due to the pandemic. Orders are however now recovering strongly as air travel increases and aircraft build rates are reverting to more normal levels.

Mitigation

Management is putting an increased focus on operational excellence to ensure that the Group retains its key customers through class-leading cost, quality and delivery. The Group has long-standing positive relationships with its key customers and the high levels of investment the Group has made in both production equipment and process know-how help to ensure the longevity of those relationships.

Diversification of business is being sought longer term where concentration levels are most high, such as India. This will take time to develop.

Credit risk has been reduced significantly by gaining credit insurance cover in the financial year for the whole Group, including notably India and China, where previously credit insurance cover was absent or limited.

Our policy has been to focus on major customers who are blue-chip multi-nationals operating in the medical, electronics and aerospace markets, providing a degree of credit protection from strength, size and reputation.

Change: ↑

04 Operational execution risk and management bandwidth/dependence on key individuals

Risks

CTP is currently going through a period of change as it focuses on the delivery of significant improvements in operational performance. This includes a number of critical restructuring projects which if not executed well will absorb management time, impact customer relationships and hinder forecast earnings growth and cash generation.

Continued scarcity of labour globally, but in particular in the US, may impact the Group's ability to execute both projects and production.

There are some key members of management with significant experience of the business and upon whom the Group particularly relies. There is a continuity risk in the case that any of these individuals decide to leave the Group.

Mitigation

Regular risk reviews:
The Group has developed an enhanced focus on site-level risk management. Frequent management reviews between risk owner and reporting managers are conducted.

Succession planning:
The Group has commenced the roll-out of formal succession planning across all management to identify and mitigate the highest risks for cover and succession and implement plans to reduce the risk of significant business impact from key dependent loss.

Operational excellence:
The Group is putting an increased focus on operational excellence to ensure that the operational execution risk is minimised. This involves investment in both people and systems to ensure that the business meets both the needs of its customers and also maximises the efficient usage of its assets. Delivery of key restructuring projects is regularly monitored and the Board is kept appraised on progress to ensure projects are delivered on time and on budget.

KPI reporting and regular local and Group management monitoring:
Performance execution is managed via enhanced focus on management of risks at a local level, regular and frequent management reviews between risk owners and reporting managers and the use of operational KPIs reporting and monitoring.

Change: ↑

Principal risks and uncertainties continued

Risks	Mitigation	Change

05 Pensions

Carclo's UK defined benefit pension scheme, having long since closed to new entrants, is mature and large compared with the size of Carclo. The scheme is backed by substantial assets amounting to £99.6 million at 31 March 2023 (2022: £155.8 million), with an IAS 19 accounting deficit at 31 March 2023 of £34.5 million (2022: £26.0 million).

For the latest actuarial valuation (as at 31 March 2021) the scheme actuary has calculated the technical provisions deficit to be £82.8 million (£90.4 million as at 31 March 2018). Under the recovery plan agreed with the trustees, a schedule of contributions was put in place, being £2.9 million in respect to the year ended 31 March 2023 and £3.5 million to be paid annually thereafter until 31 October 2039, plus additional contributions of 25% of any surplus of 2023/24 underlying EBITDA over £18 million, extending to 26% of any 2024/25 surplus.

Whilst the interests of the Group and the pension fund trustees are aligned in agreeing an affordable schedule of deficit repair contributions, there is always some element of risk that this will not be achieved. Therefore, there remains a risk that the Pensions Regulator may impose conditions on the Group that the Directors deem to be unaffordable.

The Group expects it will be able to make the payments set out in the schedule of contributions.

The PPF levy is a tax on the scheme's net liability driven by the Group's credit risk. During COVID-19, UK government policy introduced a lower cap which has kept the levy at £0.6 million, but if the cap is lifted there is a risk of the levy rising to around £1 million. This cost would be recognised in the Group income statement and whilst it would be settled out of scheme assets, thus protecting the Group's cash, it diminishes the deficit reduction effect of the Company's contributions.

Trustee liaison:
The Group fully engages with the scheme via the Chair of the Trustees, who is responsible for the development of a strategy to proactively manage assets, liabilities and administrative costs of the scheme.

Trustee regular monitoring:
Regular review of the pension scheme and Company position is conducted currently in the form of tripartite meetings between the bank, the trustees and the Company.

Deficit reduction initiatives:
The Group works with the trustees on deficit reduction initiatives. The Group offers eligible pensioners the option to switch from a pension with indexed-linked pension increases to a higher fixed pension with no future increases. The Company has also introduced a Bridging Pension Option which reduced the accounting (IAS 19) calculation of the scheme deficit and may also reduce the scheme liabilities on the trustees' technical provisions basis.

PPF levy management:
The Group continues to liaise with advisors and the scheme's Chair in respect of PPF levy management and other opportunities which can help benefit members and scheme liabilities.

Enterprise value growth:
Group management, with the support of the bank and scheme, is focused primarily on growing Group enterprise value to reduce the deficit relative to the size of the Group. The Group has presented its budget and long-term plans to the scheme and the bank at their request in the form of a Value Creation Plan.

Investment strategy:
The Company has participated in Trustee Board changes made to the scheme's investment management and strategy which was updated during the year to 31 March 2022. This resulted in adopting a slightly higher risk, higher return strategy which was considered to be more likely to enable asset growth to help reduce the scheme's deficit.

The Fiduciary Manager was maintaining an interest rate and inflation hedge covering 80% of the scheme's technical provisions liability at the time that bond and gilt yields spiked following the "mini budget" in September 2022. Liability-driven investments ("LDI") and bond values fell significantly, although less than the fall in the associated hedged technical provision liabilities. The value of other scheme assets, including property and global equity funds, also fell.

Following the "mini budget" the Trustees elected to reduce the level of the hedged technical provisions liability to 60% to help avoid the risk of hedges becoming unsupportable should gilt yields rise as quickly again. As a further stability measure, the scheme also maintains "cash flow matching" bonds covering a large proportion of the expected pension outflows for the next nine years.

Principal risks and uncertainties continued

Risks	Mitigation	Change

06 Treasury risk (funding, liquidity, foreign exchange ("FX"), and banking and pension covenants)

On 2 September 2022, the Group successfully refinanced with the Company's bank, concluding a first amendment and restatement agreement relating to the multi-currency term and revolving facilities agreement dated 14 August 2020.

At 31 March 2023, total UK bank facilities were £32.8 million, of which £3.5 million related to a revolving credit facility (maturing on 30 June 2025) and £29.3 million in term loan facilities which expire on 30 June 2025.

There are covenants over interest cover, net leverage, core subsidiary revenue and core subsidiary EBITA in respect of the agreed £32.8 million committed debt facility. These are tested quarterly. Following a more than doubling of the base rate in the first half of 2022/23 the Group re-assessed its forecasts and concluded there was insufficient headroom available to meet all the agreed banking covenants in the event of certain downside scenarios taking place. Breach of any of these covenants could lead to these creditors calling in their debts, leaving the plc insolvent. As a result, the Group warned that there was a material uncertainty over its ability to continue to trade as a going concern. Following a review of forecasts for the remainder of 2022/23 and the budget for 2023/24 the bank has remained supportive of the Group and has agreed adjustments to the Group's interest cover covenant for both the December 2022 and March 2023 testing points. In December 2022 the Group announced the cancellation of a new business contract that would materially impact results for 2022/23. As a result, the Group entered into further discussions with its bank, and following reviews of both forecasts for the remainder of 2022/23 and the Budget for 2023/24 the bank agreed to the Group's request to adjust the interest cover covenant for the December 2022 and March 2023 testing periods. All covenants were then met for these periods. The Group has also submitted its three-year plan for the period up to March 2026 and requested adjustments to the interest cover covenant for the remainder of the loan period. The net leverage covenant for the first three quarters of 2023/24 was also adjusted. The bank has formally agreed to these adjustments, which significantly reduces the risk of the Group breaching its bank covenants and therefore the Directors no longer consider there to be a material uncertainty regarding going concern.

In addition, the pension scheme has the benefit of a fifth covenant to be tested each year up to and including 2023. The test requires any shortfall of pension deficit recovery contributions when measured against Pension Protection Fund priory drift (which is a measure of the increase in the UK Pension Protection Fund's potential exposure to the Group's pension scheme liabilities) to be met by a combination of cash payments to the scheme, plus a notional (non-cash) proportion of the increase in the underlying value of the CTP and Aerospace segments based on an EBITDA multiple for those businesses which is determined annually. This test will be completed on these audited financial statements and management expect this covenant to be met.

In terms of foreign exchange ("FX") risk, Carclo plc has sterling, dollar and euro denominated bank debt and sterling debt for the pension scheme. There is a risk that insufficient income may be generated in foreign currencies, which could impact the Group's ability to service the bank and pension liabilities.

Strengthening of GBP against the subsidiaries' functional currencies creates a downside risk to P&L forecasts.

Potential interest rates increases could also increase debt servicing costs by approximately £0.1 million for each 0.25% interest rate increase.

Funding and liquidity planning and monitoring:

Group management monitors liquidity across all regions through a rolling 13-week cash forecast and over the medium term through annual three-year forecasting and regular in-year reforecasts.

Since the inception of the bank facility in August 2020 the Group has made capital repayments of £5.6 million up to the period ending 31 March 2023. The Group intends to continue to make scheduled repayments when due and to further accelerate repayment of the bank debt through additional unscheduled capital repayments, on an event-driven basis.

Group cash headroom at 31 March 2023 against bank facilities was high at over £10 million and net debt excluding lease liabilities was £22.5 million.

Bank and pension covenant compliance monitoring:

The Group maintains a regular dialogue with both the bank and the pension scheme trustees. Covenant compliance is reported monthly to the bank and pension scheme trustees in tripartite reports and is reviewed alongside Group performance regularly in tripartite quarterly management meetings with the CEO and CFO.

Agreed bank and pension covenants have been met continuously since establishing the initial £38 million bank debt facilities in August 2020.

Management of FX exposures:

Divisional FX hedging accountability

FX risk is managed at subsidiary level through natural hedges or forward contracts where the FX commitment timing and quantum is known and material. Subsidiary-level risk management has been effective to date with relatively minor exchange gains and losses recognised at subsidiary level.

Group FX hedging policies are in place

These are set out in the Group finance manual to help mitigate FX exposure in central treasury with reference to latest currency cash flow and financial forecasts.

Individual material FX cash flow hedging is applied where significant FX exposure may arise, such as from large capital or project spend or sale contracts, or where significant cash repatriations are assessed against net FX cash current and forecast positions to determine whether hedging is appropriate.

Multi-currency bank debt hedging in place

USD 13.3 million and EUR 4.9 million of debt is held in currency, providing a hedge over parts of the Group's net investment in foreign operations.

Interest rate management:

The Group uses forward yield curves to forecast interest as part of its three-year planning process and runs sensitivities around increasing interest rates.

Over the three-year plan period the Group is targeting significant additional capital repayments on its debt facilities. Although finance costs are anticipated to increase in the short term due to recent market interest rate increases, the reduction in debt will bring future finance cost benefits.

Principal risks and uncertainties continued

Risks	Mitigation	Change
07 Climate-related risks The current global warming that is occurring brings an increased number of risks (and opportunities) to the Carclo Group, which, if not managed correctly, could have a major impact on Carclo's operational and financial outcomes and could lead to significant reputational damage.	**Governance:** To ensure that Carclo complies with regulatory requirements and also uniformly addresses the significant risks and opportunities that climate change is bringing, Carclo has set up a governance structure to provide central control with appropriate delegation of authority to mitigate the risks posed. **Strategy:** Our strategy involves engaging with stakeholders to better understand how the risks and opportunities are beginning to manifest themselves in the everyday operations of our factories and how best we might deal with them. We have also appointed an external climate consultancy to undertake a thorough risks and opportunities assessment to ensure that we align with regulatory requirements and can, at the same time, de-risk our business. **Risk management:** Each business has been asked to identify risks and opportunities associated with climate change within their areas and these are then collated and considered centrally to ensure a complete and uniform approach to risk and opportunities management. **Metrics and targets:** Carclo is a relatively large user of energy, with its associated climate connotations. We have appointed an external climate consultancy to define appropriate metrics and targets for each area of the Group to help meet climate obligations. The Board, through the governance structure that has been set up, will review the consultancy's work and seek to implement their recommendations to significantly improve our intensity ratios over a period of time.	↑

Principal risks and uncertainties continued

Risks	Mitigation	Change
08 Future global pandemics The COVID-19 pandemic was an unexpected shock to the global economy and economic activity was suppressed globally. Differing approaches taken by different governments in response to virus mutations, outbreaks and waves, including lockdowns and shutting non-critical industry, created huge disruption to globalised supply chains. In the event of a further global pandemic or a resurgence of a more serious variant of COVID-19 there may be a risk to customer demand, supplier continuity and our own capability to deliver, meaning the Group needs to adapt to continually changing circumstances and be ready to respond at short notice. Despite the potential for increased demand from our life science customers, changing working practices and shutdowns would again have an impact on operational efficiency which would likely adversely affect profitability. During the pandemic the Group's Aerospace division witnessed a significant reduction in customers' aircraft newbuild programmes and a similar impact would be expected should a future global pandemic arise. In the event of any future pandemic the welfare of our employees would continue to be our top priority and we now feel better placed than previously to swiftly adopt new secure working practices, including home-based working if required by government protocols.	Whilst there is nothing specific that can be done to prevent a future global pandemic at a Company level, Carclo has learned how to continue to work, albeit at a reduced output, during the COVID-19 pandemic and is now far better placed to deal with a future pandemic than was the case in early 2020. Home working, where possible, segregation of factory operatives, self-checking for symptoms and a higher level of stock items have all been found to be mitigants in reducing the overall impact of any outbreak, notwithstanding that the health and safety of our workforce is paramount.	

Principal risks and uncertainties continued

Risks	Mitigation	Change
09 Repatriation of cash to holding company The majority of the Group's earnings are now generated overseas, with the plc itself non-trading and therefore requiring regular funding as a cost centre entity with committed bank and pension debt repayments. If there was insufficient ability for overseas subsidiaries to repatriate cash to the plc then it could create a liquidity shortfall.	**Monitoring:** The Group generally aims to generate sufficient cash to cover holding company funding requirements, although there may be timing shortfalls to forecast, monitor and resolve with funding where needed. The Group monitors liquidity Group-wide by country through a rolling 13-week cash forecast and over the medium term through annual three-year forecasting. **Inter-company charge processes in place:** Cash is regularly remitted to the UK from subsidiaries via dividends, royalties and management service recharges, such as IT, Group finance and management, as well as from intra-group loans. Subsidiaries regularly forecast their available cash to remit over the short and medium time horizons, allowing UK liquidity to be planned and managed. **Support from professional tax and treasury advisors:** External advisors provide appropriate technical and legal guidance on inter-company trading, management charges and managing the appropriate and effective payments and receipts of inter-company cash.	↓

Viability statement

The Board has assessed the viability of the Group over a three-year period to 31 March 2026 taking account of the Group's current position and the potential impact of the principal risks as documented above.

A robust assessment of the principal risks facing the business was conducted, including those that would threaten its business model, future performance, solvency or liquidity, along with a detailed review of the budget for the year ending 31 March 2024 and the forecasts for the years ending 31 March 2025 and 31 March 2026.

Three years is considered to be an appropriate period over which a reasonable expectation of the Group's longer-term viability can be evaluated and is aligned with our planning horizon at both Group and divisional level.

On 2 September 2022, the Group successfully refinanced with the Company's bank, concluding a first amendment and restatement agreement relating to the multi-currency term loan and revolving facilities agreement dated 14 August 2020. The debt facilities available to the Group at 31 March 2023 comprise a term loan of £29.3 million, of which £1.4 million will be amortised by 31 March 2024 and a further £2.2 million amortised by 31 March 2025. The balance becomes payable by the termination date, 30 June 2025. At 31 March 2023, the term loans were denominated as follows: sterling 14.2 million, US dollar 13.3 million and euro 4.9 million. The facility also includes a £3.5 million revolving credit facility, denominated in sterling, maturing on 30 June 2025.

Net debt at 31 March 2023 was £34.4 million, rising from £32.4 million at 31 March 2022; £1.5 million of the increase from March 2022 being the negative impact of foreign exchange on borrowings during the period. Group performance during the year has enabled capital investment to be made whilst retaining a stable financial position, with net debt excluding lease liabilities as of 31 March 2023 increasing to £22.5 million (2022: £21.5 million).

Key to the Group's viability, in addition to securing continuity of lending facilities, is that the pension scheme continues to support the Group. A full actuarial valuation was carried out as at 31 March 2021 in accordance with the scheme funding requirements of the Pensions Act 2024. Under the recovery plan agreed with the trustees following the 2021 valuation, a schedule of contributions was put in place, being £2.85 million in respect to the year ended 31 March 2023 and £3.5 million to be paid annually thereafter until 31 October 2039, plus additional contributions of 25% of any surplus of 2023/24 underlying EBITDA over £18.0 million payable from 30 June 2024 to 31 May 2025, extending to 26% of any 2024/25 surplus payable from 30 June 2025 to 31 May 2026.

The Directors have assessed that all contributions and bank repayments are affordable throughout the three-year period and are reflected in the covenant projections. This includes any additional unscheduled repayments made since the year end.

The bank facilities are subject to four covenants to be tested on a quarterly basis: underlying interest cover; net debt to underlying EBITDA; core subsidiary underlying EBITA; and core subsidiary revenue. On 22 June 2023, the Group's lending bank agreed to adjustments of the interest cover and the net leverage covenants. Based on our current base case forecasts, these covenant tests are expected to be met for all periods.

In addition, the pension scheme has the benefit of a fifth covenant to be tested each year up to and including 2023. The test requires any shortfall of pension deficit recovery contributions when measured against Pension Protection Fund priority drift (which is a measure of the increase in the UK Pension Protection Fund's potential exposure to the Group's pension scheme liabilities), to be met by a combination of cash payments to the scheme, plus a notional (non-cash) proportion of the increase in the underlying value of the CTP and Aerospace segments based on an EBITDA multiple for those businesses which is determined annually. This test will be completed on these audited financial statements and management expect this covenant to be met.

The next triennial actuarial assessment of the Group's defined benefit pension scheme liability will be prepared as at 31 March 2024, with the schedule of contributions being reviewed and reconsidered between the employer and the trustees no later than by 31 July 2025. For the latest actuarial valuation (as at 31 March 2021) the scheme actuary has calculated the technical provisions deficit to be £82.8 million; this deficit has decreased from the previous valuation deficit (as at 31 March 2018) of £90.4 million. In the context of the profitability and the cash generation of the Group this remains a major liability. In order to mitigate the risk to the Group, the Board continues to work closely with the pension scheme trustees to help reduce liabilities and risk associated with the defined benefit pension scheme where appropriate.

The current financing agreement provides the bank and pension scheme during the term of the facility with a certain level of monitoring of enterprise performance and the possible use of surplus cash flow once the investment needs of the business, agreed between the parties, have been met.

Viability statement continued

Management has considered whether it is aware of any specific relevant factors, other than more foreseeable risks that any business faces, beyond the three-year time horizon. Aside from the risk relating to future pension scheme deficit repair contributions, bank loan repayments and related covenants arising from the ongoing negotiations described above, and consideration of the principal risks and uncertainties, they have concluded that there are no others of a significantly material nature.

The Directors have reviewed sensitivity testing based on a number of reasonably possible scenarios, taking into account the current view of impacts of supply chain disruption and unmitigated cost inflation on the Group arising particularly from political uncertainty such as the Russian invasion of Ukraine and heightened risk of wider conflict, possible overseas trading issues as well as other potential future global pandemics.

Severe downside sensitivity testing has been performed under a range of scenarios modelling the financial effects of loss of business from: discrete sites, an overall fall in gross margin of 1% across the Group, a fall in Group sales of 3% matched by a corresponding fall in cost of sales of the same amount, a 1% increase in interest rates, minimum wage increases, and unmitigated inflationary impact across operating costs. These sensitivities attempt to incorporate the risks arising from impacts on manufacturing and supply chain and other potential increases to direct and indirect costs as well as treasury risk. The Directors consider that the Group has the capacity to take mitigating actions to ensure that the Group remains financially viable. In terms of monitoring the current commercial environment for risk, there are no indications of any significant deterioration in the sales order book pipeline, and no material capital spend commitments outstanding which would appear to be at risk of longer-term material financial loss.

Following this sensitivity testing, the Directors have concluded that the Group will be able to continue in operation and meet its liabilities as they fall due over a three-year period.

The strategic report was approved by the Board on 19 July 2023 and signed on its behalf by:

Frank Doorenbosch
Chief Executive Officer
19 July 2023

David Bedford
Chief Financial Officer
19 July 2023

Chair's introduction

The Board is fully supportive of the principles laid down in the Code and continues to review the systems, policies and procedures that support the Group's governance practices.

Joe Oatley
Non-Executive Chair

The statement of corporate governance practices set out on pages 64 to 67, including the reports of Board Committees, and information incorporated by reference, constitutes the corporate governance report of Carclo plc.

Dear shareholder

On behalf of the Board, I am pleased to present Carclo plc's corporate governance report for the year ended 31 March 2023. This report seeks to provide shareholders and other stakeholders with a clear understanding of how we discharge our governance duties and apply the principles of good governance set down in the UK Corporate Governance Code 2018 (the "Code").

Since joining the Board in July 2018, I have observed the Board's desire to maintain and continually strengthen appropriate standards of corporate governance throughout the Group. The Board is fully supportive of the principles laid down in the Code and continues to review the systems, policies and procedures that support the Group's governance practices.

We acknowledge that good governance is fundamental to the success of the Group and it is woven into the strategy and decision-making processes throughout the business. The tone from the top is cascaded from the Board to the Executive team and out to the business.

The composition of the Board is routinely assessed to ensure that we have the right balance of skills, experience and knowledge required to achieve our strategic goals. Within this assessment the Board gives due consideration to the benefits of widening Board diversity in terms of background, ethnicity, age, experience, gender and perspective. All appointments are made on merit alone.

During the year our Nomination Committee oversaw an externally facilitated evaluation of the Board and each of its Committees. The conclusions from the evaluation confirmed that the Board continues to function effectively as a whole and in Committee, and that all Directors properly discharge their duties. A full report of the activities and the outcomes of the evaluation can be found on page 73.

Nonetheless, the Board identified three key areas to focus on in the coming year, these being: strategy and value creation; capability, talent and culture; and financial controls and assurance matters.

As in previous years, all Directors are proposed for election or re-election at the Annual General Meeting of the Company.

We remain cognisant of the strong relationship between ethics and governance and the role the Board plays in demonstrating ethical leadership. Further information on ethics is contained in our responsible operations report on pages 28 to 35.

During the year, we have restructured the Board, separating the roles of Chair and Chief Executive Officer.

Nick Sanders stepped down from his role as Executive Chair on 6 October 2022 and as a Director of the Company with effect from 5 November 2022 and I was appointed by the Board as Non-Executive Chair with effect from 6 November 2022. Eric Hutchinson was appointed as Senior Independent Director and Chair of the Remuneration Committee on 6 November 2022.

Chair's introduction continued

Dear shareholder continued

With effect from 6 October 2022, Frank Doorenbosch was appointed as Chief Executive Officer, having served on the Board since January 2021 as a Non-Executive Director and acting as a consultant to the Group since June 2022.

On 14 November 2022, Phil White gave notice of his retirement and stepped down from his role as Chief Financial Officer and as a Director of the Company. David Bedford was appointed to the Board on 14 November 2022 as Chief Financial Officer, after a short period as CFO of the CTP division. David brings extensive UK and international finance leadership experience gained within a range of well-respected organisations.

The Board was further strengthened on 1 March 2023, following the appointment of Rachel Amey as a Non-Executive Director. Rachel's financial expertise will help ensure adherence to best practice in financial controls and governance.

I am pleased that we have recruited a strong Board with very relevant experience to guide the business forward.

Our corporate governance report is set out on pages 64 to 100 and incorporates the Audit and Risk Committee report on pages 68 to 71, the Nomination Committee report on pages 72 to 75 and the Directors' remuneration report on pages 76 to 96.

This section of the Annual Report sets out how we manage the Group and comply with the provisions of the Code. Our Statement of Compliance with the UK Corporate Governance Code is set out on page 60.

Joe Oatley
Non-Executive Chair
19 July 2023

Chair's introduction continued

Compliance with the 2018 Corporate Governance Code

The Company is subject to the principles and provisions of the 2018 UK Corporate Governance Code (the "Code"), a copy of which is available at **www.frc.org.uk**.

The Company has complied with the Code throughout the year with the exception of Code Provision 9 (separate roles of Chair and CEO) for part of the year and further details are contained within this report below and on page 64.

Principle	How Carclo has applied it
Principle 01: Board leadership and Company purpose The Board is collectively responsible for leading and controlling all activities of the Group, with overall authority for establishing the Company's purpose and overseeing the management and conduct of the Group's business, strategy and development.	Read how Carclo plc has applied and discussed **Principle 01** of the corporate governance framework in the **statement of corporate governance** on **pages 64 to 67**.
Principle 02: Division of responsibilities The Board comprises two Executive Directors and three independent Non-Executive Directors ("NEDs"). The Board has a Non-Executive Chair. The key roles and responsibilities of the members of the Board, including the division of responsibilities between the Non-Executive Chair and Chief Executive Officer, are discussed on page 64.	Read how Carclo plc has applied and discussed **Principle 02** of the corporate governance framework in the **statement of corporate governance** on **pages 64 to 67**.
Principle 03: Composition, succession and evaluation The Board has formally delegated authority to the Nomination Committee to assist the Board in satisfying its responsibilities relating to the composition and make-up of the Board and its Committees.	Read how Carclo plc has applied and discussed **Principle 03** of the corporate governance framework in the **Nomination Committee report** on **pages 72 to 75**. Details of the methodology used in the 2022 **Evaluation of Board effectiveness** can be found on **page 73**.
Principle 04: Audit, risk and internal control The Board has overall responsibility for ensuring that the Group maintains a sound system of risk management and internal control. The Board has formally delegated specific responsibilities for audit, risk management and financial control to the Audit and Risk Committee. The Board considers and determines the principal risks faced by the Company, and also conducts an annual review of the effectiveness of the risk management and internal control systems.	Read how Carclo plc has applied and discussed **Principle 04** of the corporate governance framework in the **Audit and Risk Committee report** on **pages 68 to 71**. Principal risks faced by the Company can be found on **pages 46 to 55**.
Principle 05: Remuneration The Remuneration Committee formally assists the Board in discharging its responsibilities in relation to Executive Director remuneration.	Read how Carclo plc has applied and discussed **Principle 05** of the corporate governance framework in the **Directors' remuneration report** on **pages 76 to 96** The Board's **Remuneration Policy** can be found on **pages 78 to 85**.

Chair's introduction continued

Our Board

Key responsibilities:
The Board is collectively responsible for the management of the Company. The Board's main role is to create long-term value for shareholders by providing entrepreneurial and prudent leadership of the Company. It does this by setting the Company's strategic aims and overseeing their delivery, ensuring that the necessary financial and other resources are available, and by maintaining a balanced approach to risk within a framework of effective controls.

Board Committees

Key responsibilities:
The Board has established Committees which are responsible for audit and risk, remuneration, and appointments and succession. Each Committee plays a vital role in helping the Board to ensure that high standards of corporate governance are maintained throughout the Group.

Audit and Risk Committee

Key responsibilities:
The Audit and Risk Committee reviews the effectiveness of the Group's internal control system, the scope of work undertaken by the internal auditor and its findings, the Group's accounts and the scope of work undertaken by the external auditor. Reviews are undertaken regularly and cover each accounting year and the period up to the date of approval of the accounts.

Nomination Committee

Key responsibilities:
Monitors and reviews the composition and balance of the Board and its Committees to ensure Carclo has the right structure, skills, diversity and experience in place for the effective management of the Group.

Undertakes the management of Board effectiveness reviews.

Reviews management training and succession planning in respect of the Company's senior executives.

Remuneration Committee

Key responsibilities:
Determines the remuneration for the Executive Directors and certain senior management. Oversees Carclo's overall remuneration policy, strategy and implementation including the alignment of incentives with reward and culture and taking into account employees' pay and rewards when setting the policy for Directors' remuneration.

Group Executive Committee

Key responsibilities:
The Group Executive Committee comprises the Executive Directors together with the heads of each business division.

The Company Secretary acts as Secretary to the Committee and is a member of the Committee.

Representatives from Finance, IT, Legal, HR and H&S also attend the Committee meetings.

The purpose of the Committee is to assist the Chief Executive Officer in the performance of his/her duties within the bounds of their authority, including:

- the development and implementation of strategy, operational plans, policies, procedures and budgets;
- the monitoring of operating and financial performance;
- the assessment and control of risk;
- driving forward actions in ESG including TCFD; and
- the prioritisation and allocation of resources.

Board of Directors

Joe Oatley
Non-Executive Chair

N R

Joe was appointed a Non-Executive Director of the Company from July 2018 and served as Chair of the Remuneration Committee from that date until April 2020. Joe served as interim Non-Executive Chair from April to September 2020 and was appointed as the Senior Independent Director on 30 September 2020. Joe was appointed Non-Executive Chair on 6 November 2022.

Skills and experience

Joe is currently also the Deputy Chairman at Wates Group Limited and a Non-Executive Director at Centurion Group Limited, and is a member of the Advisory Board of Buchanan. Previously he was Group Chief Executive of Cape plc, a global FTSE-listed company specialising in the provision of critical industrial services to the energy and natural resources sectors, from 2012 to 2018. Prior to joining Cape he was Chief Executive of Hamworthy plc, a global oil and gas engineering business, which he joined in 2007 and led until its takeover by Wärtsilä in 2012. Joe spent the early part of his career in the engineering sector in a broad range of roles, including Managing Director of a number of different businesses, Strategy Development and M&A.

External appointments

Wates Group Limited – Deputy Chairman
Centurion Group Limited – Non-Executive Director
Buchanan – member of Advisory Board

Eric Hutchinson
Senior Independent Non-Executive Director

A N R

Eric was appointed a Non-Executive Director of the Company on 7 January 2021 and Chair of the Audit and Risk Committee from 1 March 2021. Eric was appointed Senior Independent Non-Executive Director and Chair of the Remuneration Committee on 6 November 2022.

Skills and experience

Following graduation Eric qualified as a Chartered Certified Accountant and spent his early career in advisory and industrial roles before joining Spirent Communications plc, the London-listed data communications specialist. At Spirent he spent 13 years as CFO and then six years as CEO before retiring in 2020, during which time he oversaw the transformation of the business and a significant strengthening of its balance sheet.
He also served as a Member of the Financial Reporting Review Panel for nine years.

Rachel Amey
Non-Executive Director

A N R

Rachel was appointed a Non-Executive Director of the Company on 1 March 2023.

Skills and experience

Rachel trained as a chemical engineer and subsequently qualified as a Chartered Management Accountant. Rachel currently works as Director of Finance & Operations at the Royal Grammar School, Newcastle upon Tyne, and has held a number of varied financial positions with Smiths Group Plc from 2000 to 2008, and Cape Plc from 2008 to 2015, including Group Financial Controller and Chief Finance Officer.

(A) Audit and Risk Committee (N) Nomination Committee (R) Remuneration Committee ● Committee Chair

Board of Directors continued

Frank Doorenbosch
Chief Executive Officer

Frank was appointed a Non-Executive Director of the Company on 1 February 2021 and Chair of the Remuneration Committee from 30 April 2021.

After a short period acting as a consultant to the CTP division, Frank was appointed as Chief Executive Officer of Carclo plc on 6 October 2022.

Skills and experience

Frank has spent the majority of his career in the plastics industry with RPC Group plc, a leading manufacturer of film and packaging products. He has held roles in operations, finance, sales and marketing, and business improvement as well as managing operations in several locations across Europe and Asia. From 2016 to 2019 he was CEO of RPC bpi group. Frank has been instrumental in several turnarounds in the plastic packaging business sector.

External appointments

Thingtrax Limited – Non-Executive Director
Impact Recycling Limited – Non-Executive Director
Plastic Science by Design – Managing Partner

David Bedford
Chief Financial Officer

David was appointed Chief Financial Officer on 14 November 2022.

Skills and experience

David is a Chartered Accountant and holds a degree in Economics and Accounting from the University of Bristol. He brings extensive UK and international finance leadership experience gained within a range of well-respected organisations. His most recent role was as Group Finance Director of Synectics plc from 2020 to 2022. Having qualified with Deloitte & Touche in 1994, David joined Price Waterhouse's corporate finance group. David held a number of senior finance positions within IMI Precision, the largest division of IMI Plc, between 2005 and 2020. Prior to IMI, David spent seven years with Jaguar Land Rover.

(A) Audit and Risk Committee (N) Nomination Committee (R) Remuneration Committee ● Committee Chair

Statement of corporate governance

UK Corporate Governance Code

The Company remains committed to the highest standards of corporate governance, for which the Board is accountable. The Company has complied throughout the year with the main principles and provisions of the 2018 UK Corporate Governance Code ("the Code") issued by the Financial Reporting Council except for Code Provision 9 (separate roles of Chair and CEO) for part of the year. This was resolved upon the appointment of Frank Doorenbosch as Chief Executive Officer on 6 October 2022 and Joe Oatley's appointment as Non-Executive Chair on 6 November 2022
The Company continues to maintain and review its systems, processes and policies to support its sustainability and governance practices. This statement, together with the Directors' remuneration report, describes how the Company has applied the main principles and provisions of the Code.

The Board

The Board currently comprises the Non-Executive Chair, the Chief Executive Officer, the Chief Financial Officer and two Non-Executive Directors.

Nick Sanders stepped down as Executive Chair on 6 October 2022 and stepped down as a Director on 5 November 2022.

Phil White stepped down as Chief Financial Officer and a Director on 14 November 2022.

Joe Oatley became Non-Executive Chair on 6 November 2022.

Eric Hutchinson was appointed as Senior Independent Director and Chair of the Remuneration Committee on 6 November 2022.

With effect from 6 October 2022, Frank Doorenbosch was appointed as Chief Executive Officer, having served on the Board since January 2021 as a Non-Executive Director and acting as a consultant to the Group since June 2022.

David Bedford was appointed to the Board on 14 November 2022 as Chief Financial Officer.

Rachel Amey was appointed as a Non-Executive Director on 1 March 2023.

In accordance with the Company's articles of association and developing best governance practice, all Directors are to seek re-election on an annual basis.

The biographies of all the Directors appear on pages 62 and 63.

The Chair has primary responsibility for leading the Board and ensuring its effectiveness. He sets the Board's agenda and ensures, together with the Senior Independent Non-Executive Director, that all Directors can make an effective contribution.

The Chief Executive Officer has responsibility for all operational matters and the development and implementation of Group strategy approved by the Board.

The Chair and each Non-Executive Director were independent on appointment and the Board considers each Non-Executive Director to be independent in accordance with the Code.

The Board meets regularly (at least seven times each year) and there is contact between meetings to progress the Company's business.

Board meetings are usually held at subsidiary facilities at least twice a year. These visits include meeting with staff and attending presentations from management, which enables particular focus on the regional considerations associated with implementation of the Group's strategy.

In the financial year, two Board meetings were held off site at CTP in Mitcham and Carclo Optics in Aylesbury.

The Board has a formal schedule of matters specifically reserved to it for decision (including the development of corporate strategy and the approval of annual budgets, major capital expenditure and potential acquisitions and disposals). Briefing papers are distributed by the Secretary to all Directors in advance of Board meetings.
All Directors participate in a full induction process on joining the Board and subsequently receive training and briefing as appropriate. The Directors are authorised to obtain independent advice as required. The Board evaluation process also considers specific training or development needs.

During the year, attendance by Directors at meetings of the Board and its various Committees was as follows:

	Board meetings		Remuneration		Audit and Risk		Nomination	
	No. held	No. attended	No. held	No. attended	No. held	No. attended	No. held	No. attended
J Oatley	7	7	7	7	4	4	6	6
E Hutchinson	7	7	7	7	4	4	6	6
R Amey	1	1	1	1	1	1	1	1
F Doorenbosch	7	7	1	1	1	1	2	1
D Bedford	4	4	–	–	–	–	–	–
N Sanders	3	3	–	–	–	–	3	3
P White	3	3	–	–	–	–	–	–

In addition, the Board held a further 33 ad hoc Board meetings during the year, at which not all Directors were required to be present.

Statement of corporate governance continued

Conflicts of interest

Under the requirements of the Companies Act 2006, each Director must seek authorisation before taking up any position that may conflict with the interests of the Company. The Board has not identified any actual conflict of interest in relation to existing external appointments for each Director which have been authorised by the Board in accordance with its powers. A register is maintained by the Company Secretary and reviewed on an annual basis.

Board evaluation

In accordance with Provision 21 of the Code, and applicable to FTSE 350 companies, an external evaluation of the Board's performance and that of its principal Committees was undertaken by BoardClic, an independent third-party consultant, and supervised by the Non-Executive Chair.

The evaluation process was based on a series of questions devised for the purpose and circulated to the Directors. The process reviewed issues such as: the assessment and monitoring of the Company's strategy, the monthly Board meeting agenda and information flow, Board effectiveness, and governance. There was also a review of the role and performance of the Board Committees. The results of the evaluation were collated by BoardClic and will form the basis of Board objectives for 2023/24, including:

- strategy – continue the focus on delivering the plan to create value and harness innovation;
- people – additional focus on the people agenda to help management better attract and retain the best talent; and
- controls and assurance – increased focus on financial controls and risk management.

The Code requires that the Board of a FTSE 350 company or above should hold an externally facilitated evaluation at least every three years. Although not a requirement for a Company of this size, the Board felt that holding an externally facilitated Board evaluation would provide meaningful results, providing the Board with an identification of its strengths and any opportunities for improvement, as well as highlighting any training and development needs.

The Nomination Committee recognises the benefits to the Group of diversity in the workforce and in the composition of the Board and supports the importance of diversity in its broadest sense. While the Company will continue to make all appointments on merit and based on the best candidate for the role, it will always consider suitably qualified applicants for roles from as wide a range as possible, with no restrictions on age, gender, religion, ethnic background or current employment, but whose competencies and knowledge will enhance the Board and workforce.

Engagement with the workforce

The Board has complied with the Code and has engaged with the workforce. The Board had previously adopted a process whereby each of its Non-Executive Directors was designated to engage with the workforce at each of Carclo's largest UK operating sites and Head Office. During the year, all of the Directors have visited the UK Head Office in Ossett, the CTP facility in Mitcham and the Carclo Optics facility in Aylesbury, and the Executive Directors have regularly also visited several of the UK and overseas operating sites.

Board Committees

The Board has three Committees, Nomination, Remuneration, and Audit and Risk, all of which have terms of reference which deal specifically with their authorities and duties.

The terms of reference may be viewed on the Company's website. All Committee appointments are made by the Board. Only the Committee chairperson and members of the Committees are entitled to be present at Committee meetings, but others may attend by invitation.

Nomination Committee

The Nomination Committee comprises the Non-Executive Directors.

The Committee is chaired by the Non-Executive Chair and is responsible for proposing candidates for appointment to the Board, having regard to the balance and structure of the Board. In considering an appointment the Committee evaluates the balance of skills, knowledge and experience of the Board and prepares a description of the role and capabilities required for a particular candidate.

In the last year the full Committee has met six times to discuss Board performance.

Statement of corporate governance continued

Board Committees continued

Remuneration Committee

The Company has established a Remuneration Committee consisting entirely of independent Non-Executive Directors. The Remuneration Committee met seven times during the year and was chaired by Frank Doorenbosch until 27 April 2022, Joe Oatley until 6 November 2022, and then by Eric Hutchinson from 6 November 2022.

The Committee recommends to the full Board the Company's policy on Executive Director and executive management remuneration and continues to determine individual remuneration packages for Executive Directors. The Remuneration Committee is authorised by the Board to obtain independent professional advice if it considers this necessary. The Directors' remuneration report on pages 76 to 96 sets out the Group's remuneration objectives and policy and includes full details of Directors' remuneration in accordance with the provisions of the Code.

The Remuneration Committee takes care to recognise and manage any conflicts of interest when receiving views from Executive Directors or senior management about its proposals.

Audit and Risk Committee

The Audit and Risk Committee comprises all the Non-Executive Directors excluding the Non-Executive Chair and meets not less than three times annually. During the year the Committee was chaired by Eric Hutchinson, who, being a Chartered Certified Accountant and former group CFO of Spirent Communications plc and a committee member of the Financial Reporting Review Panel for nine years, has both recent and relevant financial experience. The Committee provides a forum for discussions with the Group's external and internal auditors. Meetings are also attended, by invitation, by the Non-Executive Chair, Chief Executive Officer and Chief Financial Officer.

The Audit and Risk Committee has terms of reference which follow closely the recommendations of the Code and include the following main roles and responsibilities:

- to monitor the financial reporting process;
- to review the effectiveness of the Group's internal financial controls, internal control and risk management systems and internal audit function;
- to review the independence and effectiveness of the external auditor, including the provision of non-audit services;
- to review whistleblowing arrangements whereby employees can report concerns about financial irregularities, health and safety and environmental or legal matters. A dedicated whistleblower email address has been set up, details of which are included in new employee induction material and advertised at operating sites;
- to assist the Board in observing its responsibility for ensuring that the Group's financial systems provide accurate information which is properly reflected in the published accounts; and
- to review half-year and annual accounts before their submission to the Board and review reports from the external and internal auditors.

The Audit and Risk Committee report is set out on pages 68 to 71.

Certain operational and administrative matters are delegated by the Board to the Group Executive Committee.

Group Executive Committee

The Group Executive Committee is chaired by the Chief Executive Officer and comprises the Chief Financial Officer together with the heads of each business division. The Company Secretary acts as Secretary to the Committee and is a member of the Committee. Representatives from Finance, IT, Legal, HR and H&S also attend the Committee meetings. The Committee meets on a monthly basis. The Committee is responsible to the Board for running the ongoing operations of the Group's businesses.

Accountability and audit

Internal control

The Board confirms that it has established procedures that provide for a continuous process for identifying, evaluating and managing the principal material business risks faced by the Group. This process has been in place throughout the year under review and up to the date of approval of the Annual Report and Accounts. The process has been reviewed by the Board.

For the year ended 31 March 2023, the Board has reviewed the effectiveness of the Group's system of internal control and risk management, for which it retains overall responsibility.

The Audit and Risk Committee reviews the effectiveness of the Group's internal control system, the scope of work undertaken by the internal auditor and its findings, the Group's accounts and the scope of work undertaken by the external auditor. Reviews are undertaken regularly and cover each accounting year and the period up to the date of approval of the accounts.

The internal control system is designed to manage rather than eliminate the risk of failure to achieve business objectives. Although no system of internal control can provide absolute assurance against material misstatement or loss, the Group's system is designed to provide reasonable assurance that problems are identified on a timely basis and dealt with appropriately.

Statement of corporate governance continued

Accountability and audit continued

Internal control continued

The principal features of the Group's internal control structures can be summarised as follows:

a) Matters reserved for the Board

The Board holds regular meetings and has a number of matters reserved for its approval, including major capital expenditure and dividend policy. The Board is responsible for overall Group strategy and for approving all Group budgets and plans. Certain key areas are subject to regular reporting to the Board, including capital expenditure, corporate taxation and legal matters. The Audit and Risk Committee assists the Board in its duties regarding the Group's financial statements and liaises with the external auditor.

b) Organisational structure

There is a clearly defined organisational structure with lines of responsibility and delegation of authority to divisional executive management. Divisional responsibility is supplemented by Group delegation of authorities and a finance manual which dictates policies and practices applicable across the Group and includes accounting, purchasing, capital expenditure and codes of business conduct. These are reviewed by the internal auditor and are reported to the Audit and Risk Committee. This process forms part of the Audit and Risk Committee's review of the effectiveness of the Group's system of internal control.

c) Financial control and reporting

There is a comprehensive Group-wide system of planning and budgeting with frequent reporting of results to each level of management as appropriate, including monthly reporting to the Board. Reviews involving Executive Directors and divisional executives include the annual identification and assessment of business and financial risks inherent in each division.

d) Internal auditor

During the year Grant Thornton provided the outsourced internal audit function. The internal auditor reports to the Audit and Risk Committee and works to an agreed programme.

Relations with shareholders

The Company recognises the importance of communication with its shareholders. Regular meetings are ordinarily held between Directors of the Company and major institutional shareholders including presentations after the Company's preliminary announcements of the half-year and full-year results and discussions on performance and strategy. Major shareholders have been advised that the Non-Executive Chair and the Non-Executive Directors are available for separate discussions if required.
The Non-Executive Chair held meetings with some major shareholders during the year. The Board uses the Annual General Meeting to communicate with private and institutional investors and welcomes their participation. Shareholders have the opportunity to raise questions with the Board during the meeting. Directors also make themselves available before and after the AGM to talk informally to shareholders, should they wish to do so. From the 2019 AGM, voting has been held on a poll basis. Regular updates are also now provided to retail investors via the Investor Meets Company platform. As permitted by the articles of association of the Company, the AGM will be held as a hybrid meeting again this year, with shareholders invited to join physically at the location of the AGM venue or virtually via the Investor Meet Company Platform.

Structure of the Company's capital

Details of the structure of the Company's capital are set out in the Directors' report on page 98.

By order of the Board

David Bedford
Secretary
19 July 2023

Audit and Risk Committee report

Eric Hutchinson
Chair of the Audit and Risk Committee

Introduction

I am pleased to present our Audit and Risk Committee report for the year ended 31 March 2023, and welcome Rachel Amey, who was appointed on 1 March 2023, as a Committee member. The report provides an overview of the Committee's role and shows how our work contributes to the success of the Group strategic direction, through its support to achieve its strategic goals. These are facilitated by information to enable the improvement in operational efficiency, manage cash flow, improve profitability and integrate sustainability and corporate responsibility into our core business strategy through reporting of resource utilisation, waste reduction, and increased energy efficiency.

Annual statement by the Chair of the Audit and Risk Committee

The Audit and Risk Committee has continued its scrutiny of the Group's system of risk management and internal controls, the robustness and integrity of the Group's financial reporting and the scope, effectiveness and results of both the internal and external audit processes.

The key responsibilities of the Committee are:

- to review the quality and acceptability of accounting policies and practices;
- to keep under review the Group's financial and other systems and controls and financial reporting procedures;
- to plan and scope the annual audit, receive audit reports and review financial statements taking account of accounting policies adopted and applicable reporting requirements;
- to review the financial statements (half-yearly and Annual Report) and advise the Board on whether they give a fair, balanced and understandable explanation of the Group's performance, business model and strategy over the relevant period;
- to review the internal controls of the Group and monitor and review the effectiveness of the internal audit function;
- to review and update the Company's risk management systems and the effectiveness of those systems;
- to review and challenge actions, judgements and key estimates of management in relation to the financial statements;
- to review significant legal and regulatory matters;
- to review all matters associated with the appointment, terms, remuneration, independence, objectivity and effectiveness of the external audit process and to review the scope and results of the audit;
- to review the Anti-Bribery and Corruption Policy and procedures and other policies relevant to financial security, compliance and business ethics;
- to review the Committee's terms of reference and carry out an annual review of the performance of the Committee; and
- to report to the Board on how the Committee has discharged the aforementioned responsibilities.

The Committee will continue to keep its activities under review in the light of developing regulations and best practice.

I am currently the Non-Executive Director responsible for ESG. The Committee awaits the final outcome of the consultation currently underway regarding the revised UK Corporate Governance Code and will act upon any recommendations for change, in particular that the Audit & Risk Committee has oversight for ESG in the future. The Committee's terms of reference will be reviewed and updated to reflect such recommendations at the appropriate time.

Audit and Risk Committee report continued

Annual statement by the Chair of the Audit and Risk Committee continued

The Audit and Risk Committee is the body appointed by the Board with responsibility for carrying out the functions required by the FCA Disclosure and Transparency Rules DTR 7.1.3R.

Composition

The Audit and Risk Committee comprises all the Non-Executive Directors excluding the Non-Executive Chair and meets not less than three times annually. During the year in question, the Committee was chaired by Eric Hutchinson, who, being a Chartered Certified Accountant and former group CFO of Spirent Communications plc and a member of the Financial Reporting Review Panel for nine years, has both recent and relevant financial experience. The Board is satisfied that the Committee as a whole has relevant sectoral competence as required by the Code. Other members also have relevant financial experience.

Meetings

Only Audit and Risk Committee members are entitled to attend a meeting. However, the Non-Executive Chair, Chief Executive Officer and Chief Financial Officer are normally invited to attend meetings.

Four meetings were held during the year, two of which were scheduled to coincide with the Board's review and approval of the Group's interim statement and of its preliminary results announcement based on the Annual Report and Accounts.

Internal control and risk management

The Group has an established system of internal control and a risk management framework that the Board considers appropriate in the context of the Group's reporting requirements and strategic objectives. Internal controls and risk management systems covering all material controls including financial, operational and compliance controls, are subject to internal and external audit and the outputs of the risk management process are actively challenged by the Board.

On behalf of the Board, all these activities are periodically reviewed by the Audit and Risk Committee and their effectiveness assessed through oral and written reports from both internal and external auditors.

The Committee will continue to focus on improving both the internal control and risk management environment in the current financial year.

A Risk Assurance Review is conducted annually by the full Board, in addition to a Risk Management and Internal Control Report Review.

Further details of the Group's emerging and principal risks and uncertainties, together with the mitigating actions, are set out on pages 46 to 55 of the Annual Report and Accounts.

Internal audit

The Committee reviews annually the arrangements for internal audit and Grant Thornton UK LLP continued to provide the outsourced internal audit function throughout the year. The internal auditor monitors and reports on the system of internal control and works to an agreed programme. The internal audit plan is set in the context of a developing assurance reporting process, is flexed to deal with any change in the risk profile of the Group and is approved by the Committee. The internal audit programme was reviewed in light of the changes to the Group's strategic focus.

Significant issues related to financial statements

The Committee reviews accounting papers prepared by management that provide details of significant financial reporting issues, together with reports from the external auditor prepared in conjunction with the interim and full-year results, and assesses the following, amongst other matters:

- the quality and acceptability of accounting policies and practices;
- the clarity of the disclosures and compliance with financial reporting standards and relevant financial and governance reporting requirements;
- material areas in which significant judgements or estimates have been applied or there has been discussion with the external auditor;
- whether the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy; and
- any correspondence from regulators in relation to our financial reporting.

Audit and Risk Committee report continued

Significant issues related to financial statements continued

These matters are also discussed with the external auditor together with any other matters that the auditor brings to the Committee's attention.

In the year to 31 March 2023, such issues included the impact of changes in accounting standards and other financial reporting disclosures.

In addition to the above, the Committee supports the Board in completing its assessment of the adoption of the going concern basis of preparing the financial statements. The Directors include a Viability Statement concerning the prospects of the Company, as required by the Code. During the financial year, the Committee reviewed the approach taken by the Directors in preparing and reporting on the Viability Statement with due regard for wider market practice and developing guidance. As a result of that review, the Committee was satisfied that the approach adopted was appropriate. The Viability Statement for the 2022/23 financial year is included on pages 56 and 57.

The Committee also considered changes in corporate governance and the need for the Annual Report to be fair, balanced and understandable and to contain sufficient information on the Group's performance.

The significant judgements considered by the Committee where there was potential risk of material misstatement were:

- the IAS 19 pensions position. The Company has a defined benefit pension scheme with liabilities of approximately £134.1 million and assets of approximately £99.6 million as at 31 March 2023, resulting in a net retirement benefit obligation of £34.5 million. These numbers are sensitive to the main assumptions used to calculate the deficit or surplus on the scheme and the Audit and Risk Committee seeks confirmation that these assumptions are appropriate; In the prior year, the Scheme introduced a right for members to Pension Increase Exchange ("PIE"). Having taken actuarial advice, the Executive management exercised judgement that, similar to the Bridging Pension Option adopted in the year to 31 March 2021, 40% of members would take the PIE option at retirement. There is no change to either assumption in the current year. Any change in estimate would be recognised as remeasurement gains/(losses) through the consolidated statement of comprehensive income;
- the Group balance sheet value of goodwill. The balance of goodwill on the Group balance sheet as at 31 March 2023 is £23.0 million. The Audit and Risk Committee seeks to gain assurance through the Executive management's review of "recoverable amount" being the higher of "value in use" and "fair value less costs of disposal" as the approved and selected method in testing goodwill valuation for impairment and that there are no potential impairment or recoverability issues;
- impairment of other assets. Where there has been an 'indicator' of impairment, the Audit and Risk Committee seeks to gain assurance through the work undertaken by Group management when determining the level of impairment and estimates therein;
- revenue recognition on certain customer contracts. The Audit and Risk Committee has supported the Group management's methodology and application of revenue recognition applying IFRS 15 guidelines across its portfolio of contracts;
- valuation of investments in subsidiary undertakings in the Company balance sheet. Investments in subsidiary undertakings total £83.5 million in the Company balance sheet. The Audit and Risk Committee seeks to gain assurance through the Executive management's review of "recoverable amount" being the higher of "value in use" and "fair value less costs to sell" as the approved and selected method in testing investments in subsidiary undertakings for impairment. An impairment of £10.3 million has been recognised at 31 March 2023 against the investment that the Company holds in the CTP UK entity, the Audit and Risk Committee is satisfied that impairments have been recognised where appropriate; and
- going concern. The Audit and Risk Committee supported the Board in its assessment of the adoption of the going concern basis of preparing the financial statements. As a result of that review, the Board was satisfied that the approach adopted was appropriate. A summary of the approach and work undertaken by management is disclosed in note 1 – basis of preparation: going concern on pages 118 and 119.

Audit and Risk Committee report continued

Significant issues related to financial statements continued

Other areas of judgement reviewed and agreed by the Committee, where it concluded there was not a risk of material misstatement, included:

- recognition of deferred tax assets for the Group and Company. Deferred tax assets are only recognised to the extent that it is considered there are sufficient taxable profits in the UK against which to offset future tax deductions. On this basis, deferred tax assets of £0.7 million have been derecognised at 31 March 2023 (2022: £0.7 million recognised). The Committee agreed with this approach;
- significant doubtful debt and related inventory provision. Following receipt of notice that a CTP customer would cease to operate, the Audit and Risk Committee has gained assurance from management's review that the level of provisions recognised at the year end is appropriate. £0.9 million has been recognised in exceptional items, at 31 March 2023;
- provisions. The Audit and Risk Committee supports the level of provisions for legacy health related claims and onerous leases determined appropriate by Group management by seeking external advice where necessary;
- classification of exceptional items. Certain items during the period have been presented as exceptional as defined in the Group accounting policy. Alternative performance measures such as "underlying operating profit" have been defined and applied to identify a clear distinction between underlying performance and financial performance after accounting for exceptional items;
- classification of assets held for sale. The Audit and Risk Committee is satisfied with management's view that at 31 March 2023 no non-current assets were classified as held for sale; and
- lease break options. Judgement has been applied by management when determining the level of expected certainty that a break option within a lease will be exercised. The Audit and Risk Committee seeks to gain assurance from management's review and agrees with the judgement applied.

The Committee considered whether the 2022/23 Annual Report taken as a whole was fair, balanced and understandable and whether it provided the necessary information for shareholders to assess the Company's position, performance, business model and strategy. The Audit and Risk Committee is satisfied that, taken as a whole, the Annual Report is fair, balanced and understandable.

External audit

The Committee has responsibility for making a recommendation on the appointment, re-appointment and removal of the external auditor. The external auditor's appointment is reviewed periodically, and the lead audit partner is rotated at least once every five years.

The Audit and Risk Committee last initiated a tender process in December 2019.

Shareholders formally approved Mazars' appointment at the 2020 AGM.

The Committee reviews reports from the external auditor as part of the annual audit process. These cover the scope, approach and results of the external audit and include the procedures adopted for safeguarding the firm's independence and objectivity. The quality and content of these reports, together with the performance and behaviour of the audit teams during the exercise of their duties, inform the Committee's assessment of audit effectiveness.

The Committee has an established policy for determining the non-audit services that the external auditor can provide where justified on grounds of cost and related expertise and where not impacted by potential conflicts of interest. This allows the Committee to satisfy itself that auditor objectivity and independence are safeguarded. The analysis of audit and non-audit fees for the year to 31 March 2023 and the nature of the non-audit services provided appear in note 7 in the accounts. Non-audit fees totalled £38,500. No approval shall be given to any non-audit services prohibited under the amendments to the Companies Act 2006 and the FRC Revised Ethical Standard 2019.

Mazars LLP will be proposed for re-appointment as external auditor by shareholders at the forthcoming Annual General Meeting.

Eric Hutchinson
Chair of the Audit and Risk Committee
19 July 2023

Nomination Committee report

Joe Oatley
Chair of the Nomination Committee

The Nomination Committee is responsible for regularly reviewing the composition of the Board including its structure, size and diversity in order to ensure that the Group has the right leadership, balance of skills and experience to deliver its strategy and enable the Board to effectively fulfil its obligations.

Composition

The Nomination Committee comprises all of the Non-Executive Directors. It is chaired by the Non-Executive Chair, Joe Oatley. The Committee met on six occasions during the year.

Role of the Committee

The Committee is responsible for regularly reviewing the composition of the Board including its structure, size and diversity. It is also responsible for succession planning and identifying and recommending appropriate candidates for membership of the Board when vacancies arise. The Committee has applied the Code provisions in developing the Group's policies on succession planning and appointments.

In considering an appointment, the Committee evaluates the balance of skills, knowledge, independence and experience of the Board and prepares a description of the role and capabilities required for a particular appointment. Internal candidates are considered where appropriate.

The Committee considers the Company's initiatives for Board succession planning, together with the training and development of employees with the ability to progress to senior positions in the Group. The Board believes that these initiatives improve the probability of the appointment of internal candidates to key executive positions and thereby enable the Group to fulfil its strategic objectives.

The Nomination Committee also reviews the time required from each Non-Executive Director and any other significant commitments that they may have. The 2022/23 review found the Non-Executives' time commitments to be sufficient to discharge their responsibilities effectively. Based on recommendations from the Nomination Committee, Directors submit themselves for election at the AGM following their appointment and thereafter annually for re-election in accordance with good governance.

Skills and knowledge of the Board

A key responsibility of the Committee is to ensure that the Board maintains a balance of skills, knowledge and experience appropriate to the long-term operation of the business and delivery of the strategy. As in past years, the Nomination Committee has reviewed the composition of the Board and as part of this review the Committee considered whether:

- the Board contains the right mix of skills, experience and diversity;
- the Board has an appropriate balance of Executive Directors and Non-Executive Directors; and
- the Non-Executive Directors are able to commit sufficient time to the Company to discharge their responsibilities effectively.

Following the review, the Committee was satisfied that the Board continues to have an appropriate mix of skills and experience to operate effectively. Nonetheless, the Committee considers that it could benefit from additional expertise and experience and so, whilst it is not an immediate priority, the Committee intends to start a search for an additional Non-Executive Director during the next financial year.

All the Directors have many years of experience, gained from a broad range of businesses, and they collectively bring a range of expertise and knowledge of different business sectors to Board deliberations, which encourages constructive, challenging and innovative discussions.

Nomination Committee report continued

Nomination Committee activities in 2022/23

The key deliverables of the Committee were:

- review of the structure and composition of the Board;
- recruitment of an additional Non-Executive Director;
- oversaw the external Board evaluation process;
- a review of the Committee's terms of reference;
- Board succession planning;
- the review of the Nomination Committee report for inclusion in the Annual Report and Accounts; and
- the performance evaluation of the Committee.

Review of Board structure and composition

During the year 2022/23 Carclo's Board has been refreshed, with the appointment of a new Chief Executive Officer following the separating of the roles of Non-Executive Chair and Chief Executive Officer, upon the stepping down of the Executive Chair.

As discussed above, the Committee has concluded that the Board would be strengthened by having three Non-Executive Directors in addition to the Chair, and a search for a new Non-Executive Director is planned to take place during 2023.

Selection of new Directors – process

The Committee follows an established and formal process for the recruitment of new Directors, both Executive and Non-Executive. In general terms, when considering candidates for appointment as Directors of the Company, the Nomination Committee, in conjunction with the Board, drafts a detailed job specification and candidate profile. In drafting this, consideration is given to the existing experience, knowledge and background of Board members as well as the strategic and business objectives of the Group. Once a detailed specification has been agreed with the Board, the Committee would then work with an appropriate external search and selection agency to identify candidates of the appropriate calibre and with whom an initial candidate shortlist could be agreed.
The consultants are required to work to a specification that includes the strong desirability of producing a full list of candidates who meet the essential criteria, whilst reflecting the benefits of diversity.

Appointment of new Non-Executive Directors

Each Non-Executive Director is appointed for an initial term of three years. The term can be renewed by mutual agreement if the Board is satisfied with the Director's performance and commitment and a resolution to re-elect at the appropriate AGM is successful.
The Board will not normally extend the aggregate period of service of any independent Non-Executive Director beyond nine years.

On 6 October 2022, the Board announced the appointment of Frank Doorenbosch as Chief Executive Officer. Frank had previously been appointed as a consultant to the Group for a period of up to twelve months from 6 June 2022 and accordingly had, since that date, been an Executive Director. Frank had previously served as a Non-Executive Director since February 2021.

On 6 October 2022, Nick Sanders stood down as Executive Chair and became Non-Executive Chair until 5 November 2022, when he stepped down from the Board. Joe Oatley was appointed as Non-Executive Chair with effect from 6 November 2022 and Eric Hutchinson, a Non-Executive Director and Chair of the Audit and Risk Committee, was appointed as Senior Independent Director and Chair of the Remuneration Committee with effect from 6 November 2022.

Rachel Amey was appointed to the Board as a Non-Executive Director on 1 March 2023.

The Nomination Committee is satisfied that in the period, all Board Committees continued to operate in accordance with the Code and met the requirements for a majority of independent Directors on each Committee.

Induction of new Directors

All new Directors go through a tailored induction process. It is usual process as part of a Director's induction for comprehensive site visits to be undertaken; however, this has not been possible due to financial constraints on the business. However, all Directors visited the Carclo Optics Aylesbury (UK) site in April 2022 and the CTP Mitcham (UK) site in November 2022, meeting with local management and discussing a range of matters, in particular strategy and health and safety. Frank Doorenbosch and David Bedford have regularly visited many of the worldwide sites during the financial year.

Board and Committee evaluation

The Board recognises that it needs to regularly monitor performance of both the Board and its Committees. This is achieved through the annual performance evaluation, full induction of new Board members and ongoing Board development activities.

The Code requires that the Board of a FTSE 350 company or above should consider holding an externally facilitated evaluation at least every three years. Although not a requirement for a company of Carclo's current size, the Board considered that an independent review could bring greater objectivity and fresh insights to the evaluation process and would help it to identify any issues that required addressing. An independent review would also provide assurance to stakeholders that the Board takes its responsibilities seriously. Therefore, following a robust selection process, the Board appointed BoardClic to undertake the external Board evaluation exercise which took place in late 2022.

As set out in more detail in the statement of corporate governance on page 65, the review concluded that the Board has significantly improved its effectiveness, despite the challenges of the last year. There were, nonetheless, a number of areas for improvement. Recommendations for the future included a focus on operational improvement actions, with continued improvement in the information provided to the Board so it is better able to assess the Group's operational performance, improving the Group's financial and commercial controls and continued focus on attracting and retaining the best talent.

The review also concluded that the Nomination Committee had operated effectively.

A review of the performance of the Non-Executive Chair and other Non-Executive Directors was also facilitated and did not highlight any issues.

Nomination Committee report continued

Renewal and re-election

If the Board appoints a Director, that Director must retire at the first AGM following their appointment. That Director may, if they so wish, put themselves forward for election. In accordance with the Code and the Company's articles of association, the Company will continue its practice to propose all Directors for annual re-election. Accordingly, all Directors will retire at the forthcoming AGM and, being eligible, will offer themselves up for re-election.

I am satisfied that, following the evaluation and review of the Board described above, the Directors offering themselves for re-election continue to demonstrate commitment, management and business expertise in their particular role and continue to perform effectively.

The re-election respectively of each Director is recommended by the Board. Further information of the service contracts for the Executive Directors and letters of appointment for the Non-Executive Directors are set out in the Directors' remuneration report on page 84.

During the year, the Senior Independent Director held a number of meetings with the other Non-Executive Directors without the Chair being present, as required by provision 12 of the Code.

Diversity

The Board recognises the importance of diversity in its broadest sense as an important element in maintaining Board effectiveness and creating competitive advantage. Diversity of skills, background, knowledge, international and industry experience, gender and ethnicity will be taken into consideration when seeking to make new appointments to the Board and its Committees. All appointments will be made on merit, taking into account suitability for the role, composition and balance of the Board to ensure that the Company has the appropriate mix of skills, experience, independence and knowledge.

The Board recognises the link between diversity and performance and will always proactively consider this when taking decisions regarding appointments and in succession planning.

The Board will always consider suitably qualified applicants for roles from as wide a range as possible, with no restrictions on age, gender, religion, ethnic background or current employment, but whose competencies and knowledge will enhance the Board.

We welcome the FCA's new Listing Rule requirements around diversity and inclusion reporting, and are reporting on these targets for the first time this year. In accordance with Listing Rule 9.8.6 R(9) we can confirm the following:

- the Board does not comprise the requisite 40% women. The Board has been refreshed during the year 2022/23 and the Board is striving to achieve this target. The percentage of women on the Board has increased from 0 to 20% during the financial year;
- we do not have female representation in the positions of Chair, CEO, CFO or SID; and
- no members of the Board are from a minority ethnic background. While we have refreshed the Board this year, we carried out a robust recruitment process, and no suitable candidates were found.

Board sex/gender representation (as at 31 March 2023)

	Number of Board members	Percentage of the Board	Number of senior positions on the Board (CEO, CFO, SID and Chair)	Number in executive management	Percentage of executive management
Men	4	80	4	2	100
Women	1	20	0	0	0
Other categories	0	0	0	0	0
Not specified/prefer not to say	0	0	0	0	0

Nomination Committee report continued

Ethnicity representation (as at 31 March 2023)

	Number of Board members	Percentage of the Board	Number of senior positions on the Board (CEO, CFO, SID and Chair)	Number in executive management	Percentage of executive management
White British or other White (including minority-white groups)	5	100	4	2	100
Mixed/multiple ethnic groups	0	0	0	0	0
Asian/Asian British	0	0	0	0	0
Black/African/Caribbean/Black British	0	0	0	0	0
Other ethnic group, including Arab	0	0	0	0	0
Not specified/prefer not to say	0	0	0	0	0

Data has been collected using information obtained during the recruitment process.

Committee priorities for 2023/24

- Oversee the internal Board evaluation process.
- Further focus on succession planning, particularly in relation to diversity.
- Appointment and onboarding of a new Non-Executive Director.

Joe Oatley
Chair of the Nomination Committee
19 July 2023

Directors' remuneration report

Eric Hutchinson
Chair of the Remuneration Committee

Annual Statement

Dear shareholder

On behalf of the Board I am pleased to present the Directors' remuneration report (the "Report") for the year ended 31 March 2023.

The Report has three sections:

- this Annual Statement, which summarises and explains the major decisions and changes in respect of Directors' remuneration;
- a summary of the Directors' Remuneration Policy (the "Policy") as approved at the 2021 AGM; and
- the Annual Report on Remuneration, providing details of the remuneration earned by the Company's Directors in relation to the year ended 31 March 2023 and how the Policy will be operated for the year to 31 March 2024.

The Group's targets for the financial year 2022/23 were set during the pandemic when it was assumed that the recovery from it would occur much sooner than has actually transpired. The Remuneration Committee (the "Committee") took this into account when making judgements as to past and future elements of remuneration.

Leadership changes

The Committee supported the work associated with the changes in Group leadership during the year.

Nick Sanders stepped down from his role as Executive Chair on 6 October 2022 and as a Director of the Company with effect from 5 November 2022 and Joe Oatley was appointed by the Board as Non-Executive Chair with effect from 6 November 2022. I was appointed as Senior Independent Director and Chair of the Remuneration Committee on 6 November 2022.

With effect from 6 October 2022, Frank Doorenbosch was appointed as Chief Executive Officer, having served on the Board since February 2021 as a Non-Executive Director and acting as a consultant to the Group since June 2022.

On 14 November 2022, Phil White gave notice of his retirement and stepped down from his role as Chief Financial Officer and as a Director of the Company. David Bedford was appointed to the Board on 14 November 2022 as Chief Financial Officer, after a short period as CFO of the CTP division.

The Board was further strengthened on 1 March 2023, following the appointment of Rachel Amey as a Non-Executive Director.

A summary of the principal terms of the Chief Executive Officer and Chief Financial Officer's remuneration is set out on page 86.

2022/23 financial year – performance and pay

Remuneration alignment to strategy

The Remuneration Committee believes in rewarding Carclo's Executives based on their performance and the value created for the Group's shareholders.

The variable element of F Doorenbosch, D Bedford and P White's remuneration in 2022/23 was focused on simple and transparent measures of performance against Group underlying EBITDA and operating cash flow targets. Accordingly, this Report should be read in conjunction with the strategic report.

Salary

An internal review concluded that basic salary for Executive Directors would not be increased during the financial year 2022/23.

Directors' remuneration report continued

Annual Statement continued

2022/23 financial year – performance and pay continued

Annual bonus

N Sanders was not entitled to participate in the 2022/23 annual bonus scheme. F Doorenbosch, D Bedford and P White participated in the 2022/23 annual bonus scheme; however, due to the results, they will not receive a bonus for the period.

Long Term Incentive Plan ("LTIP")

Historically, performance measures for awards made under the Carclo Performance Share Plan ("PSP") were equally weighted between EPS and TSR targets.

As detailed previously, the current PSP scheme was reviewed in 2021 and it was determined that it continued to meet the current needs of the Company. Accordingly, awards were made in 2022/23 to P White and other key executives. In line with this contract, N Sanders did not receive any award under the PSP.

The Committee determined that an absolute TSR target continued to be a more appropriate performance measure for the 2022/23 award than relative TSR measure that had been used previously. The performance measures for the awards to vest be equally weighted between EPS and absolute TSR targets. The absolute TSR target was set at the time of award, taking into account the preceding share price and ensuring that the target is sufficiently challenging to deliver material shareholder return.

The Board is committed to a clear, focused strategy and the Company is now well placed to continue this improvement. It is unfortunate that the share price recovery in difficult market conditions has not been as planned and in line with the strategy and management improvements.

Implementation of the Remuneration Policy for the 2023/24 financial year

The current Directors' Remuneration Policy was approved by shareholders at the 2021 AGM. In respect of the implementation of the Policy for the 2023/24 financial year, the Committee agreed that:

- there will not be an increase in base salaries for the Executive Directors;
- there will not be an increase in the base fees for the Non-Executive Directors;
- the structure and quantum of the annual bonus for Executive Directors is considered to be broadly appropriate and aligned to shareholders' interests. For 2023/24 the annual bonus potential will continue to be based on demanding financial targets; and
- the Long Term Incentive Plan, whereby conditional awards of shares are granted annually under the Carclo PSP with vesting after three years based on earnings per share and absolute total shareholder return performance conditions (followed by a two-year holding period), has in the past provided a strong alignment between the senior executive team and shareholders. It is proposed that LTIP grants will be made in 2023/24 with the vesting criteria anticipated to be earnings per share growth and an absolute TSR target.

The Remuneration Committee is mindful of the changes to the 2018 Code and those provisions were taken into account in the Policy approved by shareholders at the 2021 AGM. A number of those provisions have already been adopted:

- the Remuneration Committee was responsible for setting senior management pay for the 2023/24 financial year;
- the requirement for a total vesting/holding period of five years for the PSPs was implemented when the new scheme was approved in 2017;
- the implementation of a post-employment shareholding requirement;
- the Remuneration Committee already has the ability to use discretion to override formulaic outcomes; and
- any future Executive Directors who are recruited will receive a pension contribution rate in line with the UK general workforce.

Alignment with shareholders

The Remuneration Committee is mindful of the interests of the Group's shareholders and is keen to ensure a demonstrable link between reward and value creation. In addition to the matters set out in this Report, alignment and shareholder interest is further demonstrated by the operation of share ownership guidelines and the inclusion of malus and clawback provisions for both annual bonus and LTIP awards.

Most importantly, however, is the clear link between executive remuneration and the performance of the business as a whole. As permanent Executive Directors are now in place, the Remuneration Committee will ensure the executive remuneration "mix" is in line with the Directors' Remuneration Policy and in the best interests of the shareholders and the Company.

The Group acknowledges the support it has received in the past from its shareholders and hopes that this will continue.

Eric Hutchinson
Chair of the Remuneration Committee
19 July 2023

Compliance statement

This Report has been prepared in accordance with the requirements of the Large and Medium Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, the Companies (Miscellaneous Reporting) Regulations 2018, the Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019, the UK Listing Authority Listing Rules and applies the principles set out in the UK Corporate Governance Code 2018 (the "Code").

The following parts of the Annual Report on Remuneration are audited: the single total figure of remuneration for Directors, including annual bonus and LTIP outcomes for the financial year ending 31 March 2023; scheme interests awarded during the year; and Directors' shareholdings and share interests.

Remuneration payments and payments for loss of office can only be made to Directors if they are consistent with the approved Directors' Remuneration Policy or otherwise approved by ordinary resolution of the Company's shareholders.

Directors' remuneration report continued

Directors' Remuneration Policy

The Remuneration Policy was approved by shareholders at the 2021 AGM on 2 September 2021.

The Policy for the remuneration of the Executive and Non-Executive Directors is set out in the table below.

Element of remuneration	**Salary**
Purpose and link to strategy	To provide an appropriate, competitive level of basic fixed income avoiding excessive risk arising from over-reliance on variable income. To retain and attract Executive Directors of superior calibre in order to deliver earnings growth. Reflects individual skills and experience and role.
Operation	Reviewed annually by the Remuneration Committee, normally effective 1 April. Takes periodic account of similar roles at companies with similar characteristics and sector comparators, individual experience and performance, Company performance and wider pay levels and salary increases across the Group.
Maximum	No prescribed maximum annual increase, but will normally be in line with general increase for the wider workforce. In exceptional circumstances, the Committee may decide to award a lower increase for Executive Directors or indeed exceed this to recognise, for example, an increase in the scale, scope or responsibility of the role to take account of relevant market movements and/or the appointment of new Executive Directors.
Performance targets	N/A

Element of remuneration	**Other benefits**
Purpose and link to strategy	Provides market-competitive benefits. Provides insured benefits to support the individual and their family during periods of ill health, accident or death.
Operation	Benefits provided through third-party providers. Includes car allowance, life insurance, private medical insurance and permanent disability insurance. Other benefits may be provided where appropriate.
Maximum	Benefits may vary by role and individual circumstance and are reviewed periodically. Benefits have not exceeded 10% of salary in the last three financial years and are not anticipated to exceed this over the next three financial years. The Committee retains the discretion to approve a higher cost in exceptional circumstances (e.g. relocation) or in circumstances where factors outside of the Company's control have materially changed (e.g. increases in medical premiums).
Performance targets	N/A

Directors' remuneration report continued

Directors' Remuneration Policy continued

Element of remuneration	Bonus
Purpose and link to strategy	Incentivises annual delivery of short-term financial and strategic business goals and business strategy. Maximum bonus only payable for achieving demanding targets.
Operation	Performance measures, targets and weightings are set at the start of the year. Payments are calculated based on an assessment of performance at the end of the year. Paid in cash with payment of 33% of any bonus earned deferred by two years. Not pensionable. Clawback and malus provisions apply in the event of material misstatement of results and/or an error in the calculation of the bonus outcome.
Maximum	100% of salary CEO. 75% of salary CFO.
Performance targets	Performance is assessed on an annual basis by reference to financial measures as well as the achievement of personal/strategic objectives. The financial performance measure for 2023/24 is underlying EBIT, however the Committee has discretion to adjust the performance measures and weightings each year according to strategic priorities, although the weighting on financial measures will be at least 75%. For 2023/24 the Group is including a measure of health and safety performance in addition to the financial performance measure above. The bonus for personal/strategic performance is payable only if, in the opinion of the Remuneration Committee, there was an improvement in the underlying financial and operational performance of the Group during that financial year. The Committee has discretion to adjust the performance conditions to ensure that payments accurately reflect business performance over the performance period. However, such discretion may only be used in circumstances where the Committee considers the amended performance conditions to be: • fair and reasonable in the circumstances; and • a more appropriate measure of performance and not materially less challenging than the original condition would have been.

Directors' remuneration report continued

Directors' Remuneration Policy continued

Element of remuneration	Long Term Incentive Plan (awards made under the Carclo Performance Share Plan)
Purpose and link to strategy	Aligned to main strategic objectives of delivering sustainable value growth and shareholder return. To reward and retain successful leadership team, reward delivery of the Company strategy and long-term goals and to help align Executive and shareholder interests.
Operation	Annual grant of nil cost options or performance shares which normally vest after at least three years subject to continued service and performance targets. At the start of each performance cycle, the Committee sets performance targets which it considers to be appropriately stretching. Awards made to Executive Directors will be subject to a "holding period" under which for the five-year period following the date of grant the Executive Directors will not be permitted to sell shares subject to the awards (other than to fund any exercise price payable or pay any tax liability arising on vesting) and limited exceptional circumstances (such as death). Clawback and/or malus may be applied up to seven years from the grant of awards in any of the following circumstances: (a) if any of the audited financial results for the Company are materially misstated; (b) if the Company, any Group company and/or a relevant business unit has suffered serious reputational damage as a result of the relevant participant's misconduct or otherwise; (c) there has been serious misconduct on the part of the relevant participant; or (d) in such other circumstances, where the Committee determines that malus or clawback should apply.
Maximum	• 100% of salary normal limit. • 200% of salary exceptional limit – e.g. recruitment.
Performance targets	LTIP performance is measured over three years. Current performance measures are EPS and absolute TSR, weighted equally; however, the Committee has discretion to adjust the performance measures and weightings to ensure they continue to be linked to the delivery of the Company strategy. The Committee has discretion to adjust the performance conditions to ensure that payments accurately reflect business performance over the performance period. However, such discretion may only be used in circumstances where the Committee considers the amended performance conditions to be: • fair and reasonable in the circumstances; and • a more appropriate measure of performance and not materially less challenging than the original condition would have been.

Element of remuneration	Pension
Purpose and link to strategy	Provides market-competitive retirement benefits. Opportunity for Executives to contribute to their own retirement plan.
Operation	Executive Directors receive a contribution to HMRC-approved personal pension arrangement or a payment in lieu of pension contributions.
Maximum	Executive Directors will receive an employer contribution to pension in line with the UK general workforce.
Performance targets	N/A

Directors' remuneration report continued

Directors' Remuneration Policy continued

Element of remuneration	**Share ownership guidelines**
Purpose and link to strategy	To provide alignment between Executives and shareholders.
Operation	Executive Directors are required to build and maintain a shareholding equivalent to one year's base salary through the retention of vested share awards or through open market purchases until the guideline is met.
Maximum	100% of salary holding for Executive Directors. The Committee will monitor progress against this requirement on an annual basis. A reasonable time limit is considered to be five years. For as long as an Executive Director has not met the relevant share ownership guideline above, he/she will be expected to retain 50% of the post-tax number of any vested share award under PSP in the first five years of their employment and 75% thereafter until the guideline is met. Departing Executive Directors are required to hold their vested PSP shares up to 100% of salary, or their actual PSP derived shareholding if lower, for two years after leaving.
Performance targets	N/A

Element of remuneration	**Service agreements – notice periods**
Purpose and link to strategy	
Operation	
Maximum	Service contracts will not contain notice periods of more than twelve months.
Performance targets	N/A

Element of remuneration	**Non-Executive Directors' fees**
Purpose and link to strategy	Reflects time commitments and responsibilities of each role. Reflects market-competitive fees.
Operation	Reviewed annually by the Board, normally effective 1 April. Non-Executive Directors receive a basic fee for their respective roles. Additional fees are paid to Non-Executive Directors for additional services such as chairing the Audit and Risk and Remuneration Committees. Fee levels are benchmarked with reference to sector comparators and FTSE-listed companies of similar size and complexity. The required time commitment and responsibilities are taken into account when reviewing fee levels. All fees are paid in cash.
Maximum	No prescribed maximum annual increase, but it is expected that fee increases will normally be in line with general increases for the wider workforce. However, in the event that there is a material misalignment with the market or change in complexity, responsibility or time commitment required to fulfil a Non-Executive Director role, the Board has discretion to make an appropriate adjustment to the fee level.
Performance targets	Non-Executive Directors do not participate in variable pay arrangements or receive any pension provision.

Directors' remuneration report continued

Directors' Remuneration Policy continued

Notes to the Policy table

Performance measurement selection

The choice of underlying EBIT as the financial performance metric applicable to the annual bonus scheme is designed to link performance to strategy and the business plan. The Committee believes that performance measures set in respect of the annual bonus should be appropriately challenging and tied to the delivery of profit growth, and specific individual objectives. A non-financial measure (health and safety target) has been included in the annual bonus scheme.

The absolute TSR and EPS performance conditions applicable to the Carclo PSP were selected by the Remuneration Committee on the basis that they reward the delivery of long-term returns to shareholders and the Group's financial growth and are consistent with the Company's objective of delivering superior levels of long-term value to shareholders.

The Committee operates the Carclo PSP in accordance with the rules of that plan, Listing Rules, company law and the relevant tax legislation. The Committee retains discretion over certain areas relating to the operation and administration of the Carclo PSP consistent with market practice.

The Company has a share ownership policy which requires the Executive Directors to build up and maintain a target holding equal to 100% of base salary. Details of the extent to which the Executive Directors had complied with this Policy as at 31 March 2023 are set out on page 96.

Remuneration policy for other employees

The following differences exist between the Company's Policy for the remuneration of Executive Directors as set out above and its approach to the payment of employees generally:

- a lower level of maximum annual bonus opportunity generally applies to employees below Board level;
- Executive Directors carry an obligation to build and maintain a sizeable share-ownership position. No such obligation is held by other employees;
- benefits offered to other employees generally comprise provision of healthcare and company car benefits where required for the role or to meet market norms; and
- participation in the Carclo PSP (LTIP) is limited to the Executive Directors and certain selected senior managers.

In general, these differences arise from the development of remuneration arrangements that are market competitive for the various categories of individuals and for the diverse international employment settings in which we operate. This is of great importance given the highly cost competitive demands of the business sectors within which Carclo competes. They also reflect the fact that, in the case of the Executive Directors and senior executives, a greater emphasis tends to be placed on performance-related pay.

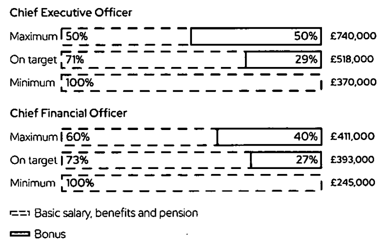
Remuneration Policy for the Non-Executive Directors

The Board determines the Remuneration Policy and level of fees for the Non-Executive Directors, within the limits set out in the articles of association. When doing so, an individual is not allowed to participate in the discussions relating to their own remuneration.

The Policy table summarises the key components of remuneration for the Non-Executive Directors.

Pay scenario charts

The graphs below provide estimates of the potential future reward opportunity for the two Executive Director positions for the 2023/24 financial year, and the potential split between different elements of remuneration under three different scenarios: "Minimum", "On target" and "Maximum" performance (please refer to Note 27 and that dividends are not currently payable under the current financing arrangement)[1].



1. The impact of a 50% increase in the share price on the structure of pay of the Executive Director positions cannot be shown as the quantum of the LTIP has not yet been determined.

Directors' remuneration report continued

Directors' Remuneration Policy continued

Pay scenario charts continued

Assumptions underlying each element of pay are provided in the table below. The projected value of the Carclo PSP excludes the impact of share price growth and dividend accrual. Actual pay delivered, however, will be influenced by these factors.

Minimum

Fixed pay comprising base salary, benefits and pension

Base salary is the current base salary effective 1 April 2023

Benefits are the current benefits projected for the financial year ahead

Name	Base salary £000	Benefits £000	Pension £000	Total fixed £000
F Doorenbosch	370.0	–	–	370.0
D Bedford	221.5	12.0	11.0	244.5

On target

Based on remuneration if performance was in line with expectations

Annual performance bonus for 40% – 40% of base salary

LTIP consists of threshold PSP vesting (25% for both absolute TSR and EPS performance measures)

Maximum

Based on maximum remuneration receivable

Annual performance bonus for 75% – D Bedford 75% of base salary

Annual performance bonus for 100% – F Doorenbosch 100% of base salary

LTIP consists of threshold PSP vesting (25% for both absolute TSR and EPS performance measures)

Approach to remuneration upon recruitment

The remuneration package for any new permanent Executive Director – i.e. basic salary, benefits, pension, annual bonus and long-term incentive awards – would be set in accordance with the terms of the Company's prevailing approved Remuneration Policy at the time of appointment and would reflect the experience of the individual. Annual bonus potential will be limited to 100% of salary for the Chief Executive and 75% of salary for the Chief Financial Officer. Under current policy, long-term incentives will be limited to 100% of salary in both cases (200% of salary in exceptional circumstances).

In addition to normal remuneration elements, the Committee may offer additional cash and/or share-based elements when it considers these to be in the best interests of the Company (and therefore shareholders) to take account of remuneration relinquished by a new Executive Director as a result of them leaving their former employer ("buyout" awards).

In making such buyout awards the Committee would take account of, where possible, the nature, time horizons and performance requirements (including the likelihood of those conditions being met) of the forfeited awards. Any such "buyout" awards will typically be made under the existing annual bonus and LTIP scheme, although in exceptional circumstances the Committee may exercise the discretion available under Listing Rule 9.4.2R to make awards using a different structure. Any "buyout" awards would have a fair value no higher than the awards forfeited. Shareholders will be informed of any such payments at the time of appointment.

Directors' remuneration report continued

Directors' Remuneration Policy continued

Approach to remuneration upon recruitment continued

For an internal Executive Director appointment, the Remuneration Committee will be consistent with the Policy adopted for external appointees detailed above. Any variable pay element awarded in respect of the prior role may be allowed to pay out according to its terms. Where an individual has contractual commitments made prior to their promotion to Executive Director level, the Company will continue to honour these arrangements.

For external and internal appointments, the Committee may agree that the Company will meet certain relocation and/or incidental expenses as appropriate.

In the case of hiring a new Non-Executive Director, a base fee in line with the prevailing fee schedule would be payable for Board membership, with additional fees payable for additional services, such as chairing a Board Committee or being the Senior Independent Director.

Service contracts

The Executive Directors are employed under contracts of employment with Carclo. The principal terms of the Executive Directors' service contracts are as follows:

Executive Director	Position	Effective date of contract	Notice period from Company	Notice period from Director
F Doorenbosch	Chief Executive Officer	6 October 2022	6 months	6 months
D Bedford	Chief Financial Officer	14 November 2022	6 months	6 months

Non-Executive Directors are appointed under arrangements that may generally be terminated at will by either party without compensation and their appointment is reviewed annually.

Letters of appointment are provided to the Non-Executive Directors. Non-Executive Directors have letters of appointment effective for a period of three years and are subject to annual re-election at the AGM.

Directors' letters of appointment and the unexpired period of their appointments (where appropriate after extension by re-election) are set out below:

Non-Executive Director	Date of most recent letter	Unexpired term as at 31 March 2023	Date of appointment	Last re-appointment at AGM
J Oatley	24 June 2021	To 2023 AGM	20 July 2018	1 September 2022
E Hutchinson	21 December 2020	To 2023 AGM	7 January 2021	1 September 2022
R Amey	21 February 2023	To 2023 AGM	1 March 2023	–

Directors' service contracts and letters of appointment are available for inspection at the Company's registered office.

This section has been updated to reflect the position as at 19 July 2023 in respect of the Directors' service contracts and letters of appointment. The position as at the time the Remuneration Policy was approved is set out in the Remuneration Policy which is available on the Company's website.

Directors' remuneration report continued

Directors' Remuneration Policy continued

Exit payment policy

The Company's policy is to limit any payment made to a departing Director to contractual arrangements and to honour any pre-established commitments. As part of this process, the Committee will take into consideration the Executive Director's duty to mitigate their loss.

It is Company policy that Executive service contracts should not normally contain notice periods of more than twelve months.

There are no provisions within the contracts to provide automatic payments in excess of payment in lieu of notice upon termination by the Company and no predetermined compensation package exists in the event of termination of employment. Payment in lieu of notice would include basic salary, pension contributions and benefits. There are no provisions for the payment of liquidated damages.

Annual bonuses may be payable with respect to the period of the financial year served by the departing Executive with the Committee ordinarily providing that such bonus will be pro-rated for time and paid at the normal payout date. Any share-based entitlements granted to an Executive Director under the Company's share plans will be determined based on the relevant plan rules.

The default treatment under the 2017 PSP is that any outstanding awards lapse on cessation of employment. However, in certain prescribed circumstances, such as death, injury or disability or other circumstances at the discretion of the Committee, "good leaver" status may be applied. For good leavers, awards will normally vest on the normal vesting date, albeit that the Committee has the discretion to determine that the awards may vest at an earlier date. In determining the extent of any such vesting the Committee will take account of the extent to which the relevant performance conditions have been satisfied and the proportion of the performance period actually served.

Malus and clawback

Awards granted under the Company's Short-Term Incentive ("STI") and PSP schemes are subject to malus and clawback provisions, enabling an adjustment to an employee's variable pay awards if warranted by the occurrence of a "trigger event". The type of events that may constitute a trigger event are as follows:

- circumstances justifying the summary dismissal of an employee from his office or employment with any member of the Group including, but not limited to, dishonesty, fraud, misrepresentation or breach of trust;
- circumstances where an employee has participated in or is responsible for conduct which resulted in significant losses to any member of the Group;
- the Company has become aware of any material wrongdoing on the part of an employee;
- an employee has acted in a manner which in the opinion of the Board has brought or is likely to bring any member of the Group into material dispute or is materially adverse to the interests of any member of the Group;
- any material breach of an employee's terms and conditions of employment, or material breach of a fiduciary duty owed to any member of the Group;
- any material violation of Company policy, rules or regulation, or a failure to meet appropriate standards of fitness and propriety;
- any material failure of risk management;
- any other conduct which is considered to be misconduct; or
- the inaccurate reporting of any accounts, financial data or such other information resulting in such accounts, financial data or other information being, in the opinion of the Remuneration Committee (acting fairly and reasonably), either materially corrected and/or requiring any future accounts, financial data or information having to include write-downs, adjustments or other corrective items in order to address the inaccuracy.

The application of malus (i.e. partial or full lapse of an unvested incentive opportunity) will be possible over the relevant performance period and holding period; the application of clawback (i.e. the partial or full repayment of a vested-and-paid incentive award) will be possible for a period of 18 months from the end of the relevant performance period.

The Remuneration Committee will consider the most appropriate method through which to apply an adjustment to pay at its absolute discretion. In most cases, the simplest approach would be in the following sequence:

1. reduction of in-flight annual bonus and/or PSP awards not yet performance-tested (i.e. malus);
2. reduction of deferred bonus or vested PSP (i.e. malus); and
3. request for the repayment of an already-paid annual bonus and/or PSP award (i.e. clawback).

An employee not in role at the time of the trigger event should be excluded from an adjustment except in the instance where the severity of the event warrants a collective adjustment across the entire business area or Company regardless of responsibility.

Directors' remuneration report continued

Annual Report on Remuneration

The following section provides details of how Carclo's Remuneration Policy was implemented during the financial year ending 31 March 2023.

Remuneration Committee membership in 2022/23

The Remuneration Committee currently comprises E Hutchinson, J Oatley and R Amey. The Committee is currently chaired by E Hutchinson. F Doorenbosch was a member and Chair of the Committee until 6 June 2022. J Oatley was Chair of the Committee from 6 June 2022 to 6 November 2022.

The Committee met seven times during the financial year ended 31 March 2023 and individual Committee members attended all meetings held during the year under review.

During the year, the Committee sought internal support from the Chief Executive Officer and Chief Financial Officer, who attended Committee meetings by invitation from the Remuneration Committee Chair, to advise on specific questions raised by the Committee and on matters relating to the performance and remuneration of senior managers. The Chief Executive Officer and Chief Financial Officer were not present for any discussions that related directly to their own remuneration. The Company Secretary attended each meeting as Secretary to the Committee.

Independent advice

In undertaking its responsibilities, the Committee seeks independent external advice as necessary. During the year, Ellason LLP provided such advice. Ellason LLP has no connection with any individual Director.

During the year £4,482 fees were paid to Ellason LLP in respect of general advice around levels of Executive remuneration.

Summary of shareholder voting on remuneration matters

The following table shows the results of the shareholder vote on the 2021/22 remuneration report at the 2022 AGM:

	Total number of votes	% of votes cast
For (including discretionary)	17,951,261	94.84
Against	976,948	5.16
Total votes cast (excluding withheld votes)	18,928,209	100.00
Votes withheld	7,671	
Total votes cast (including withheld votes)	18,935,880	

The following table shows the results of the shareholder vote on the Remuneration Policy at the 2021 AGM:

	Total number of votes	% of votes cast
For (including discretionary)	16,119,471	94.26
Against	980,956	5.74
Total votes cast (excluding withheld votes)	17,100,427	100.00
Votes withheld	16,368	
Total votes cast (including withheld votes)	17,116,795	

F Doorenbosch – remuneration details

F Doorenbosch was appointed as Chief Executive Officer on 6 October 2022.

The terms of his appointment can be summarised as follows:

- annual salary of £370,000;
- no entitlement to pension contributions or other benefits;
- eligible to receive a cash bonus up to 100% of salary (with payment of 33% of any bonus earned deferred by two years); and
- eligible to receive PSP awards up to 100% of salary.

D Bedford – remuneration details

D Bedford was appointed as Chief Financial Officer on 14 November 2022.

The terms of his appointment can be summarised as follows:

- annual salary of £221,500;
- annual car allowance and private medical insurance;
- eligible for pension contributions in line with the general workforce;
- eligible to receive a cash bonus up to 75% of salary (with payment of 33% of any bonus earned deferred by two years); and
- eligible to receive PSP awards up to 100% of salary.

Directors' remuneration report continued

Annual Report on Remuneration continued

Single total figure of remuneration for Executive Directors (audited)

The table below sets out a single figure for the total remuneration received by each Executive Director for the year ended 31 March 2023 and the prior year:

Name		Salary £000	Payment for loss of office £000	Benefits[1] £000	Annual bonus £000	LTIP and other share-based payments £000	Pension[2] £000	Total fixed £000	Total variable £000	Total £000
F Doorenbosch[3]	**2023**	**335**	**N/A**	**3**	**0**	**N/A**	**N/A**	**338**	**0**	**338**
	2022	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
D Bedford[4]	**2023**	**83**	**N/A**	**6**	**0**	**N/A**	**4**	**93**	**0**	**93**
	2022	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
N Sanders[5]	**2023**	**116**	**113**	**N/A**	**N/A**	**N/A**	**N/A**	**229**	**N/A**	**229**
	2022	150	N/A	N/A	N/A	N/A	N/A	150	N/A	150
P White[6]	**2023**	**138**	**N/A**	**7**	**0**	**N/A**	**N/A**	**145**	**0**	**145**
	2022	215	N/A	11	45	N/A	N/A	215	56	271

1. Benefits comprise private medical cover, travel and car allowance.
2. Payment in lieu of pension contributions are in line with the Remuneration Policy.
3. F Doorenbosch become an Executive Director from 7 June 2022 and worked on a consultancy basis until being formally appointed Chief Executive Officer from 6 October 2022. His salary relates to the period 7 June 2022 to 31 March 2023 whilst acting in an executive capacity.
4. D Bedford was appointed as a Director and Chief Financial Officer on 14 November 2022.
5. N Sanders' 2022 salary relates to the period until 5 October 2022 when he stepped down as Executive Chair and includes a PILON payment of £112,500.
6. P White's 2022 salary, benefits and annual bonus relate to the period until 14 November 2022, when he stepped down from the Board. P White continues to be paid a salary and benefits until his contractual leave date of 30 June 2023.

Directors' remuneration report continued

Annual Report on Remuneration continued

Single total figure of remuneration for Non-Executive Directors (audited)

The table below sets out a single figure for the total remuneration received by each Non-Executive Director for the year ended 31 March 2023 and the prior year:

	Base fee £		Committee fees £		Total £	
Non-Executive Director	2023	2022	2023	2022	2023	2022
J Oatley[1]	**64,970**	48,000	**N/A**	N/A	**64,970**	48,000
E Hutchinson[2]	**42,267**	38,000	**4,000**	7,000	**46,267**	45,000
F Doorenbosch[3]	**7,050**	38,000	**1,200**	6,417	**8,250**	44,417
R Amey[4]	**3,167**	N/A	**N/A**	N/A	**3,167**	N/A
N Sanders[5]	**7,500**	N/A	**N/A**	N/A	**7,500**	N/A

1. J Oatley acted as Senior Independent Director until 6 November 2022, when he was appointed as Non-Executive Chair.
2. E Hutchinson acted as a Non-Executive Director and Audit and Risk Committee Chair until 6 November 2022, when he was appointed as the Senior Independent Director.
3. F Doorenbosch was appointed as an Executive Director from 6 October 2022.
4. R Amey was appointed as a Non-Executive Director on 1 March 2023.
5. N Sanders become Non-Executive Chair on 6 October 2022 and stepped down from the Board on 5 November 2022.

Incentive outcomes for the year ended 31 March 2023 (audited)

Annual performance bonus outcome 2022/23

	Outcome % salary		Maximum potential % salary	
Name	Financial	Payable	Financial	Payable
F Doorenbosch	100.00	0.00	100.00	0.00
D Bedford	75.00	0.00	75.00	0.00
P White	75.00	0.00	75.00	0.00

The financial performance targets applicable to the 2022/23 annual bonus arrangements were as follows:

To achieve and exceed the Group's underlying EBITDA (50% weighted) and Operating Cash Flow targets (50% weighted).

In respect of underlying EBITDA, to achieve the threshold under this financial performance target the Group was required to achieve £14,243,000. The actual performance achieved against this target was £13,965,000.

Turning to operating cash flow, to achieve the threshold under this financial performance target the Group was required to achieve £16,187,000. The actual performance achieved against this target was £7,778,000.

Consequently, none of the potential annual bonus was achieved in respect of the aggregate of both financial performance targets and therefore no payment will be made in respect of the 2022/23 annual bonus.

Directors' remuneration report continued

Annual Report on Remuneration continued

Scheme interests awarded in the year ended 31 March 2023 (audited)

2022/23 LTIP

Executive Director	Date of grant	Shares subject to awards made during the year	Share price at date of award	Face value at date of award
P White	3 August 2022	386,778	20.33p	£78,632

Awards take the form of conditional share awards.

The extent to which awards granted in the year ending 31 March 2023 will vest is dependent on two independent performance conditions, with 50% determined by reference to the Company's absolute TSR and 50% determined by reference to the Company's EPS, as follows:

The TSR element:

The performance period is the period commencing on the grant date and ending on the vesting date, which will be the third anniversary of the grant date.

The TSR performance condition will be based on the Company's TSR as at the end of the performance period, as follows:

- if TSR is 70 pence or less, the TSR Award will not vest to any extent;
- if TSR is 90 pence or above, the TSR Award will vest in full; and
- if TSR falls between 70 pence and 90 pence, a proportion of the TSR Award will vest, calculated by straight-line apportionment.

The measurement period relates to the period of 30 days preceding the third anniversary of the grant date, using the average daily closing share price calculated from that date and ending on the last dealing day before the vesting date. At 31 March 2023, the closing share price was 13.08 pence.

This also includes any gross dividends paid in respect of the shares between the grant date and the vesting date reinvested on the relevant payment date at the average of the high and low share prices on that date. Under the terms of the amended and restated bank facilities agreement, the Group is not permitted to make a dividend payment to shareholders up to the period ending June 2025.

The EPS element:

The performance period is the period of three financial years of the Company between 1 April 2022 and 31 March 2025.

The EPS performance condition will be based on the Company's EPS for the last financial year of the performance period (the financial year ending 31 March 2025), as follows:

- if EPS is 6.0 pence or less, the EPS Award will not vest to any extent;
- if EPS is 8.0 pence or above, the EPS Award will vest in full; and
- if EPS falls between 6.0 pence and 8.0 pence, a proportion of the EPS Award will vest, calculated by straight-line apportionment.

The award granted to P White was conditional upon continued service, would normally vest after three years and would be subject to a further two-year holding period. P White stepped down as a Director on 14 November 2022, and was considered to be a 'good leaver' under the plan rules due to his retirement. The LTIP award will vest on the normal vesting date and be time pro-rated to his contractual leaving date of 30 June 2023.

Directors' remuneration report continued

Annual Report on Remuneration continued

Implementation of Remuneration Policy for the year ending 31 March 2024

A summary of how the Directors' Remuneration Policy will be applied during the year ending 31 March 2024 is set out below:

Basic salary

Executive Directors' base salaries.

	2023/24	2022/23[1]	% increase
F Doorenbosch	£370,000	£370,000	Nil
D Bedford	£221,500	£221,500	Nil

Below Executive Director level, basic pay increases are limited to cost of living adjustments, typically in the range 0% to 13%, apart from cases of local statutory requirements, promotions, increases in scope or other exceptional reasons. There has not been an increase in base salaries/fees for the Directors in the period. The Board is mindful of the pressures during the current economic climate, particularly increases in cost of living, and is working hard to ensure support is provided to employees throughout this difficult period.

Pension arrangements

F Doorenbosch does not receive employer pension contributions.

D Bedford receives employer pension contributions in line with the general workforce.

Annual bonus

In line with the Directors' Remuneration Policy it is anticipated that the maximum bonus potential for the year ending 31 March 2024 will be 100% of salary for the CEO and 75% of salary for the CFO. It is likely that all of the bonus will be based on financial measures, being underlying EBIT. In recognition of the importance of safety to the business, the Company has included a safety performance measure for the 2023/24 financial year. The Remuneration Committee reserves discretion over agreeing some element of personal objective should that be deemed to be in the best interests of the Company and shareholders. Maximum bonus will only be payable when the financial results of the Group significantly exceed expectations and any bonus will be payable only if, in the opinion of the Remuneration Committee, there is an improvement in the underlying financial and operating performance of the Group during the year ending 31 March 2024. Clawback and malus provisions will apply for all Executive Directors. Payment of 33% of any bonus earned by an Executive Director is subject to deferral for two years.

Proposed target levels have been set to be challenging relative to the 2023/24 business plan, although specific targets are deemed to be commercially sensitive and will not be published until such time that the Committee is confident there will be no adverse impact on the Company of such disclosure. At this time the Committee believes that the disclosure of targets in the year following the determination of bonuses is appropriate as disclosed above.

Long-term incentives

In line with the Directors' Remuneration Policy it is anticipated that the value of the PSP grant to be made to the CEO and CFO for the year ending 31 March 2024 will not exceed 100% of salary. It is expected that the PSP vesting criteria will be based on the performance over the three years ended 31 March 2026 and metrics of 50% earnings per share and 50% absolute TSR.

As noted previously, following the work carried out by the Remuneration Committee in 2021/22, the Remuneration Committee has determined that the LTIP is currently fit for purpose.

The Committee believes the scheme works by closely aligning Executive Directors' long-term interests with those of the Company and the shareholders. As set out in the Directors' Remuneration Policy, awards will be subject to malus and clawback provisions, and a requirement to hold the shares subject to awards for five years from date of grant except in exceptional circumstances or to pay any tax liability arising on vesting.

1. Full-year equivalent.

Directors' remuneration report continued

Annual Report on Remuneration continued

Non-Executive Directors

The Company's approach to Non-Executive Directors' remuneration is set by the Board with account taken of the time and responsibility involved in each role, including, where applicable, the chairpersonship of Board Committees. A summary of current fees is shown in the table below.

Fee levels for the 2023/24 financial year can be summarised as follows:

Provision	2023/24	2022/23	% increase
Non-Executive Chair Base fee	£90,000	N/A	N/A
Non-Executive Director Base fee	£38,000	£38,000	0
Senior Independent Director fee	£10,000	£10,000	0
Committee Chair fees	£7,000	£7,000	0

Percentage change in Directors' remuneration

The table below shows the percentage change in each Director's salary/fees, bonus and benefits between the financial year ended 31 March 2022 and 31 March 2023 compared to that of the total amounts for all UK employees of the Group for each of these elements of pay. Disclosure for all Directors in addition to the CEO has been added in the prior year in line with the new requirements under the EU Shareholder Rights Directive II and over time a five-year comparison will be built up.

Percentage change from 2021/22 to 2022/23:

	Salary/fee	Benefits	Bonus
Executive Chair			
N Sanders (stepped down on 5 November 2022)	0%	N/A	N/A
Chief Executive Officer			
F Doorenbosch	0%	N/A	0%
Executive Directors			
D Bedford	0%	0%	0%
P White (stepped down on 14 November 2022)	0%	0%	0%
Non-Executive Directors			
J Oatley	0%	N/A	N/A
E Hutchinson	0%	N/A	N/A
R Amey	0%	N/A	N/A
Average percentage increase for UK employees	5.4%	1.3%	(100.0)%

Directors' remuneration report continued

Annual Report on Remuneration continued

Percentage change in Directors' remuneration continued

Percentage change from 2020/21 to 2021/22:

	Salary/fee	Benefits	Bonus
Executive Chair			
N Sanders	0%	N/A	N/A
Executive Directors			
P White	0%	0%	(72.0)%
Non-Executive Directors			
J Oatley	22.23%	N/A	N/A
E Hutchinson	0%	N/A	N/A
F Doorenbosch	0%	N/A	N/A
Average percentage increase for UK employees	2.9%	19.4%	(54.1)%

Directors' remuneration report continued

Annual Report on Remuneration continued
Percentage change in Directors' remuneration continued
Percentage change from 2019/20 to 2020/21:

	Salary/fee	Benefits	Bonus
Executive Chair			
N Sanders	–	N/A	N/A
Executive Directors			
P White	–	–	–
A Collins (interim CEO)	0%	N/A	N/A
M Durkin-Jones	0%	N/A	N/A
Non-Executive Directors			
J Oatley	0%	N/A	N/A
E Hutchinson	–	N/A	N/A
F Doorenbosch	–	N/A	N/A
P Slabbert	0%	N/A	N/A
D Toohey	0%	N/A	N/A
Average percentage increase for UK employees	3.4%	0%	720%

UK employees have been selected as the most appropriate comparator pool, given the largest number of Group employees and the Group's headquarters are located in the UK.

The bonus figures are for UK-based employees who participate in a bonus arrangement.

Relative importance of spend on pay
The table below shows the Group's actual expenditure on pay (for all employees) relative to retained profits for the financial years ending 31 March 2022 and 31 March 2023.

	2023 £000	2022 £000	% change
Staff costs	40,709	34,971	16.4%
Retained (loss)/profit	(3,957)	5,799	(168.2)%

	Number	Number	% change
Number of employees	1,116	1,062	5.1%

Directors' remuneration report continued

Annual Report on Remuneration continued

Relative performance

The graph compares the value of £100 invested in Carclo shares, including reinvested dividends, with the FTSE Small Cap index over the last ten years. This index was selected because it is considered to be the most appropriate against which the total shareholder return of Carclo plc should be measured.

Table of historical data (Chief Executive/Executive Chair)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	**2023**
Chief Executive/Executive Chair single figure of remuneration (£000)	328	538	462	836	449	325	270	321	150	**567**
Annual bonus payout (as % of maximum)	–	71	21	96	–	–	–	–	–	**–**
PSP vesting (as % of maximum)	–	–	50	50	32.5	–	–	–	–	**–**

C Malley was appointed Chief Executive on 27 March 2013 and resigned as Chief Executive and stood down from the Board on 11 January 2019. M Rollins assumed the role of Executive Chair until A Collins was appointed as new interim Chief Executive on 1 October 2019. Consequently, the full-year data is a combination of both, reflecting the period in which they each acted as Chief Executive. A Collins left the Group on 5 November 2020, however acted as CEO until 5 October 2020, and N Sanders assumed the role of Executive Chair on 5 October 2020. Consequently, the full-year data for 2021 is a combination of both, reflecting the period in which N Sanders acted in the position of Executive Chair and up to and including the leaving date for A Collins. N Sanders stepped down as Executive Chair on 6 October 2022 and F Doorenbosch was appointed as CEO effective 6 October 2022. Consequently, the full-year data for 2023 is a combination of both.

Directors' remuneration report continued

Annual Report on Remuneration continued

Chief Executive/Executive Chair pay ratio reporting

Outlined below is the ratio of the Chief Executive/Executive Chair's single figure of total remuneration for 2022/23 expressed as a multiple of total remuneration for UK employees.

The three ratios referenced below are calculated by reference to the employees at the 25th, 50th and 75th percentile. We additionally disclose the total pay and benefits and base salary of the employees used to calculate the ratios.

In time, the table below will build to represent ten years of data:

Financial year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2022/23	**Option A**	**23 : 1**	**19 : 1**	**13 : 1**
2021/22	Option A	7 : 1	6 : 1	4 : 1
2020/21	Option A	15 : 1	13 : 1	8 : 1
2019/20	Option A	12 : 1	10 : 1	7 : 1

Full-year pay data for the 2022/23 financial year has been used to calculate the ratios.

The employee data used to calculate the ratios is as follows:

	25th percentile	Median	75th percentile
Total pay and benefits	£24,642	£30,001	£42,507
Base salary	£22,735	£27,256	£39,923

Of the three options set out in the new legislation for calculating the Chief Executive/Executive Chair pay ratio, we have opted to use Option A to calculate the pay ratio.

As required in the regulations, we confirm our belief that the median pay ratio for the year is consistent with the Company's wider pay, reward and progression policies affecting our employees. Our pay reflects the key market in which we operate. We also continue to support our colleagues in an environment that is driven by our core culture and values.

Directors' remuneration report continued

Annual Report on Remuneration continued

Directors' interests (audited)

The interests of the Directors and their connected persons in the ordinary shares of the Company as at 31 March 2023 were as follows:

	31 March 2023		31 March 2022	
	Ordinary shares	**Options**	Ordinary shares	Options
J Oatley	**400,000**	**–**	–	–
E Hutchinson	**192,118**	**–**	192,118	–
F Doorenbosch	**403,958**	**–**	203,958	N/A
R Amey	**–**	**–**	–	–
D Bedford	**80,000**	**–**	–	N/A

There have been no changes in the Directors' interests since the year end.

Directors' shareholding requirement (audited)

The table below shows the shareholding of each Executive Director against their respective shareholding requirement as at 31 March 2023:

	Shares held					
Director	Owned outright or vested	Vested but subject to holding period	Unvested and subject to vesting conditions	Shareholding requirement (% salary)	Current shareholding (% salary)	Prior year shareholding (% salary)
F Doorenbosch	403,958	–	–	100	18.10	N/A
D Bedford	80,000	–	–	100	2.59	N/A

There have been no changes in the Directors' interests since the year end.

Directors' interests in shares in Carclo long-term incentive plans (audited)

All of the above shares held by F Doorenbosch and D Bedford are owned outright as a result of market purchases.

Approval of the Directors' remuneration report

The Directors' remuneration report set out on pages 76 to 96 was approved by the Board of Directors on 19 July 2023 and signed on its behalf by Eric Hutchinson, Chair of the Remuneration Committee.

Eric Hutchinson
Chair of the Remuneration Committee
19 July 2023

Directors' report

The Directors' report is required to be produced by law. Pages 97 to 100 inclusive (together with the sections of the Annual Report incorporated into these pages by reference) constitute the Directors' report that has been drawn up and presented in accordance with applicable law. The Directors' report also includes certain disclosures that the Company is required to make by the Financial Conduct Authority's Disclosure Guidance and Transparency Rules and Listing Rules.

Strategic report

The strategic report required by the Companies Act 2006 can be found on pages 01 to 57. This report, together with the Chief Executive Officer's statement on pages 08 to 11, sets out the Company's business model and strategy, contains a review of the business and describes the development and performance of the Group's business during the financial year and its position at the end of the year. It also contains, on pages 46 to 55, a description of the principal risks and uncertainties facing the Group.

The Directors who served during the year are set out below:

J Oatley
E Hutchinson
F Doorenbosch
D Bedford – appointed 14 November 2022
R Amey – appointed 1 March 2023
N Sanders – stepped down 5 November 2022
P White – stepped down 14 November 2022

FCA's Disclosure Guidance and Transparency Rules

For the purposes of the Financial Conduct Authority's Disclosure Guidance and Transparency Rules (DTR 4.1.5R (2) and DTR 4.1.8R), this Directors' report, the strategic report on pages 01 to 57 and the Chief Executive Officer's statement on pages 08 to 11 together comprise the "management report".

Statement of corporate governance

The statement of corporate governance on pages 64 to 67 provides the corporate governance statement required by the Financial Conduct Authority's Disclosure Guidance and Transparency Rules (DTR 7.2.1). The statement of corporate governance forms part of this Directors' report and is incorporated into it by cross-reference.

Going concern

The Group's business activities, together with the factors likely to affect its future development, are set out in the Strategic Report on pages 01 to 57. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described on pages 40 to 45 of the Strategic Report. Further disclosures regarding borrowings are provided in note 22.

As described in the Viability Statement, the Directors have assessed the prospects and viability of the Company over a three-year period to March 2026. The Board has performed a robust assessment of the principal risks facing the Company, including those risks that would threaten the business model, future performance, solvency or liquidity.

Having considered the Group's cash flow forecasts, the Directors are satisfied the Group has sufficient liquidity and covenant headroom to enable the Group to conduct its business and meet its liabilities as they fall due for at least the next twelve months. Accordingly, these financial statements are prepared on a going concern basis.

The Directors' Viability Statement is in the Strategic Report on pages 56 and 57.

(Losses)/profits and earnings

The (loss)/profit from continuing operations of the Group before taxation, after charging net interest of £3.7 million (2022: £3.0 million), amounted to £2.5 million loss compared with £5.9 million profit for the previous year. After taxation, the earnings from continuing operations per ordinary 5 pence share was a loss of 5.4 pence compared with 7.0 pence profit for the previous year.

Statutory result of the Group amounted to £4.0 million loss compared with £5.8 million profit for the previous year.
After taxation, the earnings from all operations per ordinary 5 pence share was a loss of 5.4 pence compared with 7.9 pence profit for the previous year.

Dividend

In accordance with the provisions of the amended and restated bank facilities agreement signed on 2 September 2022, the business is not currently permitted to pay dividends. The Board is therefore not recommending the payment of a dividend for 2022/23 (2021/22: £nil).

Directors' report continued

Post balance sheet events

In December 2022, having delivered the Design and Engineering phase of the supply contract, the Group received notice from a leading global OEM customer that, due to a contraction in the end-market demand for COVID-19 testing, they would not be proceeding into the production phase of the project.

On 30 May 2023, a mutually satisfactory settlement agreement was signed which largely offsets the Group's financial exposure arising from early termination of the contract. The Group has recognised an exceptional cost in the year to 31 March 2023 of £0.9 million, most of which is to recognise assets on balance sheet at recoverable amount, see note 9 for further details. The Group will recognise an exceptional gain in income statement to 31 March 2024 of approximately £0.6 million. Although the details of the agreement remain confidential, full and final settlement was received on 21 June 2023.

On 22 June 2023, the Group's lending bank agreed to an adjustment of the interest and the net leverage covenants related to the facilities due to mature on 30 June 2025. In line with our strategy of cash generation, the Company intends to make voluntary debt repayments over and above those agreed in the September 2022 refinancing. On 1 June 2023, a voluntary repayment of £0.4 million was made and on 30 June 2023 a further voluntary repayment of £3.3 million was made.

Share capital

At 31 March 2023, the Company's issued share capital comprised 73,419,193 ordinary shares of 5 pence each. Details of the changes in issued share capital during the year are set out in note 27 to the accounts. The information in note 27 is incorporated into this Directors' report by reference and is deemed to form part of this report.

Each share carries equal rights to dividends, voting and return of capital on the winding up of the Company as set out in the Company's articles of association. There are no restrictions on the transfer of securities in the Company and there are no restrictions on voting rights or deadlines, other than those prescribed by law or by the articles of association, nor is the Company aware of any arrangement between holders of its shares which may result in restrictions on the transfer of securities or voting rights.

Share capital authorities

The Directors were granted a general authority at the 2022 Annual General Meeting (the "2022 AGM") to allot shares in the capital of the Company up to an aggregate nominal value of £1,211,417 (representing approximately 33% of the issued share capital prior to the 2022 AGM). This authority is due to lapse at the Annual General Meeting in 2023 (the "2023 AGM").

At the 2022 AGM the Directors also requested authority to allot shares for cash on a non-pre-emptive basis in any circumstances up to a maximum aggregate nominal amount of £183,548 (representing approximately 5% of the issued share capital prior to the 2022 AGM) and to purchase up to 10% of the Company's issued ordinary shares in the market.

All of the above share capital authority resolutions will be proposed for renewal of authority at the 2023 AGM.

Change of control

There are no significant agreements to which the Company is a party that take effect, alter or terminate on a change of control following a takeover bid, nor are there any agreements between the Company and its Directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) that occurs because of a takeover bid.

Amendment of articles of association

The Company's articles of association may only be amended by special resolution of the shareholders at a general meeting.

Appointment and replacement of Directors

The Company's articles of association provide that the number of Directors shall be not more than twelve and not fewer than four, unless otherwise determined by the Company by ordinary resolution. Directors may be appointed by an ordinary resolution of the shareholders or by a resolution of the Board.

A Director appointed by the Board during the year must retire at the first Annual General Meeting ("AGM") following his or her appointment and such Director is eligible to offer him or herself for election by the Company's shareholders.

Additionally, the Company's articles of association provide that each of the Directors who are subject to retirement by rotation shall retire from office at each AGM. A Director who retires at an AGM may be re-elected by the shareholders.

In line with the Company's articles of association and the UK Corporate Governance Code, all Directors retired and presented themselves for re-election at the 2022 AGM.

In addition to the statutory power, a Director may be removed by ordinary resolution of the shareholders. The articles also set out the circumstances when a Director must leave office. These include where a Director resigns, becomes bankrupt, is absent from the business without permission or where a Director is removed by notice signed by a requisite number of remaining Directors.

Directors' report continued

Political donations and expenditure
No political donations were made, nor was political expenditure incurred during the financial year.

Financial instruments
Information on the Group's financial risk management objectives and policies and its exposure to credit risk, interest risk, liquidity risk and foreign currency risk can be found in note 29. Such information is incorporated into this Directors' report by reference and is deemed to form part of this report.

Employment policies
The Group's policies as regards the employment of disabled persons and a description of actions the Group has taken to encourage greater employee involvement in the business are set out on page 29. Such information is incorporated into this Directors' report by reference and is deemed to form part of this report.

Greenhouse gas emissions and energy consumption
Information on greenhouse gas emissions and energy consumption required to be disclosed in this Directors' report is set out on pages 34 and 35. Such information is incorporated into this Directors' report by reference and is deemed to form part of this report.

Engagement with employees, suppliers and customers
Information on engagement with employees, suppliers and customers is required to be disclosed in this Directors' report and is set out under the s.172 statement on pages 23 to 25. Such information is incorporated into this Directors' report by reference and is deemed to form part of this report.

Research and development and future development
Information on future development required to be disclosed in this Directors' report is set out on page 120. Such information is incorporated into this Directors' report by reference and is deemed to form part of this report.

Substantial shareholdings
At the date of approval of the 2022/23 Annual Report and Accounts, the Company had received notification of the following shareholdings in excess of 3% of its issued share capital pursuant to the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority as at 31 March 2023 and 19 July 2023:

	As at 19 July 2023	As at 31 March 2023
Schroder Investment Management Limited	**13.4%**	13.4%
Janus Henderson Investors	**9.8%**	9.8%
First Equity Limited	**8.4%**	7.71%
P Parker	**3.4%**	–

Directors' report continued

Directors and Directors' interests
The Directors at the date of this Directors' report are listed on pages 62 and 63. Nick Sanders stepped down from the Board on 5 November 2022. Phil White stepped down as a Director of the Company on 14 November 2022.

No other person served as a Director of the Company at any time during the financial year.

Additional information relating to Directors' remuneration and interests in the ordinary share capital of the Company are included in the Directors' remuneration report on pages 76 to 96.

Biographies of Directors
The biographies of Directors required to be disclosed in this Directors' report are set out on pages 62 and 63. Such information is incorporated into this Directors' report by reference and is deemed to form part of this report.

Directors' indemnities
The Company's articles of association permit the Company to indemnify any Director or any Director of any associated company against any liability pursuant to any qualifying third-party indemnity provision or any qualifying pension scheme indemnity provision, or on any other lawful basis.

The indemnity provisions entered into by the Company in favour of all the Directors were in force during the year and continue to be in force at the date the Directors' report is approved. The Company also takes out insurance covering claims against the Directors or officers of the Company and any associated company and this insurance provides cover in respect of some of the Company's liabilities under the indemnity provisions.

Disclosure of information to auditor
In accordance with Section 418(2) of the Companies Act 2006, the Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Information required by LR 9.8.4R
There is no additional information required to be disclosed under LR 9.8.4R other than that disclosed in the Directors' remuneration report.

By order of the Board

David Bedford
Secretary
19 July 2023

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under that law, the Directors have prepared the Group financial statements in accordance with UK-adopted International Accounting Standards and have elected to prepare the Parent Company financial statements in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework.

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 Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the UK;
- for the parent company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements;
- assess the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a strategic report, Directors' report, Directors' remuneration report and statement of corporate governance that complies with that law and those regulations.

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

Responsibility statement of the Directors in respect of the annual financial report

The Directors as at the date of this report, whose names and functions are set out on pages 62 and 63, confirm that to the best of their knowledge:

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

We consider the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

By order of the Board

Frank Doorenbosch
Chief Executive Officer
19 July 2023

Independent auditor's report

to the members of Carclo plc

Opinion

We have audited the financial statements of Carclo plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 March 2023 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows, Company Balance Sheet, Company Statement of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and UK-adopted international accounting standards. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice) as applied in accordance with the provisions of the Companies Act 2006.

In our opinion,

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2023 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the Parent Company Financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice as applied in accordance with the requirements of the Companies Act of 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act of 2006.

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 Group and the Parent 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 as applied to listed entities and public interest entities 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

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

In addition to those matters set out in the "Key audit matters" section below, we identified going concern of the Group and of the Parent Company as a key audit matter.

The Group is dependent on debt facilities from its bank, which have a number of financial covenants and expire in June 2025. The Group disclosed a material uncertainty over going concern In its interim accounts for the six months to 30 September 2022 due to a lack of forecast headroom on its interest cover covenant. Furthermore, the agreement with a leading global OEM was terminated during the year which is also likely to have an impact on the headroom and the Group's ability to meet the financial covenants. The Group engaged in active negotiations with its bank to amend the covenants, specifically focusing on the interest cover and net leverage rations for the duration of the facilities. Therefore, there is a risk that the going concern basis of preparation is not appropriate for the financial statements and we have identified going concern as a key audit matter.

The Group's accounting policy in respect of going concern is set out in note 1 'Basis of preparation' on page 118. Going concern has also been identified as a key judgement in note 2 on page 127.

Independent auditor's report continued

to the members of Carclo plc

Conclusions relating to going concern continued

Our audit procedures to evaluate the directors' assessment of the Group's and the Parent Company's ability to continue to adopt the going concern basis of accounting included but were not limited to:

- Undertaking an initial assessment at the planning stage of the audit to identify events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern;
- Obtaining an understanding of the relevant controls relating to the directors' going concern assessment;
- Making enquiries of the directors to understand the period of assessment considered by them, the assumptions they considered and the implication of those when assessing the Group's and Parent Company's future financial performance;
- Challenging the appropriateness of the directors' key assumptions in their cash flow forecasts, as described in note 1, by reviewing supporting and contradictory evidence in relation to these key assumptions and assessing the directors' consideration of severe but plausible scenarios. This included considering mitigating actions within the directors' control;
- Testing the accuracy and functionality of the model used to prepare the directors' forecasts;
- Assessing the historical accuracy of forecasts prepared by the directors;
- Assessing the impact of loss of leading global OEM customer and its impact on the future forecast of the Group;
- Assessing and challenging key assumptions and mitigating actions put in place in response to wider global economic conditions;
- Considering the consistency of the directors' forecasts with other areas of the financial statements and our audit;
- Examining the facility headroom on the debt facilities and evaluating whether the directors' conclusion that liquidity headroom remains in all scenarios modelled by them is reasonable;
- Carrying out independent evaluation of the forecast and stress tests in relation to the forecasts prepared by management;
- Reviewing and ascertaining the status of negotiations with the bank in respect of amendments to covenants including discussions with the bank;
- Reviewing the financial covenants (including agreed amendments) and pension covenant associated with the debt facilities and checking the calculation of the covenants and projected compliance; and
- Evaluating the appropriateness of the directors' disclosures in the financial statements on going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

In relation to Carclo plc's reporting on how it has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We summarise below the key audit matters in forming our opinion above, together with an overview of the principal audit procedures performed to address each matter and our key observations arising from those procedures. The matters set out below are in addition to going concern which is set out in the "Conclusions relating to going concern" section above, was also identified as a key audit matter.

These matters, together with our findings, were communicated to those charged with governance through our Audit Completion Report.

Independent auditor's report continued

to the members of Carclo plc

Key audit matters continued

Key Audit Matter

Revenue recognition (Group)

The Group's accounting policy in respect of revenue recognition is set out in note 1(j) 'Revenue recognition' on page 122. Revenue recognition on tooling contracts has also been identified as a key judgement in note 2 on page 128. Revenue recognised on tooling contracts in the year is £20.1m as set out in note 6 on page 135.

There is a presumed significant risk of fraud in revenue recognition due to the potential to inappropriately shift the timing and basis of revenue recognition, as well as the potential to record fictitious revenues or fail to record actual revenues.

For the Group, we consider this risk to arise as follows:

- In relation to tooling revenue:
  - tooling revenue may not be recognised on an appropriate basis and in line with the terms of underlying contracts or agreements with customers; and
  - any contract modifications or amendments may not be accounted for on an appropriate basis, including in line with the requirements of IFRS 15.
- There is a risk that revenue is recognised in the incorrect accounting period, due to the potential to inappropriately shift the timing and basis of revenue recognition, including the recognition of revenue before services or products have been provided to customers.

As revenue is a key benchmark in a user's assessment of the performance of the Group and given the judgement involved in determining the amount of revenue to be recognised on tooling contracts, we have identified revenue recognition as a key audit matter.

How our scope addressed this matter

Our response

Our audit procedures included, but were not limited to:

- performing testing of the design and implementation of controls around revenue recognition;
- in relation to tooling revenue:
  - reviewing the basis of revenue recognition on tooling contracts, including management's assessment of the performance obligations and the amount of revenue recognised with reference to underlying documentation;
  - reviewing contract modifications and the associated accounting treatment for changes in contract revenue;
- performing substantive analytical review procedures, including setting an expectation for revenue based on cash received in bank statements and comparing this to actual revenue recognised in the year;
- substantive sample testing of revenue transactions either side of the year end. For each item selected, we assessed the timing of revenue recognition by reference to underlying supporting documentation; and
- reviewing the audit work completed on revenue by the component auditors in accordance with our instructions.

Our observations

The methodology used in determining the recognition of the group's revenue was appropriate and we have not identified any material misstatement in the revenue recognised in the year.

Independent auditor's report continued

to the members of Carclo plc

Key audit matters continued

Key Audit Matter

Valuation and impairment of intangible assets (Group)

Included on the Consolidated Statement of Financial Position on page 114 is £23.5m of intangible assets, of which £23m relates to goodwill allocated to the Technical Plastics cash generating unit (CGU).

The Group's accounting policies in respect of goodwill are set out in note 1(c) 'Goodwill' on page 120 and note 1(v) 'Impairment' on page 125. Impairment of goodwill has also been identified as a key judgement in note 2 on page 128.

The directors are required to perform an impairment review in respect of the goodwill on an annual basis or where there are indicators of impairment. This involves determining the recoverable amount of the CGU to which the goodwill has been allocated and comparing it against its carrying value, with any impairment loss first allocated to reduce the carrying value of the goodwill and then to reduce the carrying amount of the other assets in the CGU on a pro-rata basis.

As disclosed in note 15 on page 147, the recoverable amount is based on a calculation of value in use.

The calculation of value in use is subjective and involves significant judgement and estimation, including cash flow projections and discount rates. Therefore, there is a risk that the assumptions used in the calculation of value in use are not appropriate, resulting in an overstatement of the recoverable amount of the CGU and an unrecognised impairment of intangible assets.

Accordingly, we identified the valuation and impairment of intangible assets as a key audit matter.

How our scope addressed this matter

Our response

Our audit procedures included, but were not limited to:

- performing testing of the design and implementation of controls around valuation and impairment of intangible assets;
- obtaining and reviewing management's impairment review;
- reviewing and evaluating the basis for Grouping entities together as a CGU in the impairment review;
- reviewing the arithmetic accuracy of the impairment model prepared by management, including checking the data used in the calculation of value in use;
- considering the appropriateness of the key assumptions used in the calculation of value in use, being the cash flow projections, estimated growth rates and discount rates. This included engaging an internal expert to evaluate the discount rates applied by management;
- reviewing the sensitivity analysis performed by management in their assessment; and
- assessing whether the relevant disclosures in the financial statements are reasonable.

Our observations

The methodology used for the valuation and for the impairment review of intangible assets and goodwill was appropriate.

Independent auditor's report continued

to the members of Carclo plc

Key audit matters continued

Key Audit Matter	How our scope addressed this matter
Valuation and impairment of investment in subsidiaries (Parent Company) The carrying value of investments in subsidiary undertakings on the Company Balance Sheet on page 182 is £83.5m (2022: £93.8m). During the year an impairment of £10.3m has been recognised in respect of the investment that the Company holds in the UK plastics entity. As set out in the accounting policy in note 35(c) on page 187, investments are held at cost less provisions for impairment where appropriate. There is a risk that investments in subsidiary undertakings are impaired where there are indicators of impairment in the underlying subsidiaries not identified by management, including a risk that the net assets or earnings do not support the carrying value. As set out in note 39 on page 190, value in use models have been used by management to assess the recoverable amount of investments in the material trading subsidiaries. The calculation of value in use is subjective and involves significant judgement and estimation, including in relation to projected cash flows and discount rates. As a result of the factors outlined above, as well as the significance of this balance in respect of the Parent Company financial statements, we identified the valuation and impairment of subsidiaries as a key audit matter.	**Our response** Our audit procedures included, but were not limited to: • performing testing of the design and implementation of controls around valuation and impairment of investment in subsidiaries; • obtaining and reviewing management's impairment reviews; • reviewing the underlying assumptions used in the impairment reviews and assessing whether these are reasonable. This included engaging an internal expert to evaluate the discount rates applied by management; • reviewing and checking the net book value of the individual investments used in the impairment review; • testing individual investments for further indicators of impairment, including by comparing the carrying amount of the investment to the net assets/liabilities of the related subsidiary (being an approximation of the minimum recoverable amount); and • assessing whether the relevant disclosures in the financial statements are reasonable. **Our observations** The methodology used for the valuation and for the impairment review of investments in subsidiaries was appropriate.

Our application of materiality and an overview of the scope of our audit

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole. Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Independent auditor's report continued

to the members of Carclo plc

Group materiality

Overall materiality	£1,434k
How we determined it	We determined overall materiality to be 1% of the Group's revenue.
Rationale for benchmark applied	Revenue has been identified as the principal benchmark within the Group financial statements as we consider that the Group's revenue remains a key measure of the performance of the Group and is a more stable benchmark on which to set materiality compared to other measures. For example, profit/loss before taxation fluctuates and has been significantly impacted by a number of one-off items such as restructuring that have taken place in current year and over the last few years.
Performance materiality	Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole. Having considered factors such as the Group's control environment and that it is the third year of our audit engagement, we set performance materiality at £932k which is 65% of overall materiality.
Reporting threshold	We agreed with the directors that we would report to them misstatements identified during our audit above £43k as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

The range of overall materiality across components, audited to the lower of statutory audit materiality and materiality capped for Group audit purposes, was between £175k and £900k, being all below Group overall materiality.

Parent Company materiality

Overall materiality	£791k
How we determined it	We determined overall materiality to be 0.5% of total assets.
Rationale for benchmark applied	The company does not trade and acts as a holding company. Therefore the company has a significant investment in subsidiaries which is the main balance on its statement of financial position and deemed to be the key interest to users of the Company financial statements.
Performance materiality	Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole. Having considered factors such as the Parent Company's control environment and that it is the third year of our audit engagement, we set performance materiality at £514k which is 65% of overall materiality.
Reporting threshold	We agreed with the directors that we would report to them misstatements identified during our audit above £24k as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

As part of designing our audit, we assessed the risk of material misstatement in the financial statements, whether due to fraud or error, and then designed and performed audit procedures responsive to those risks. In particular, we looked at where the directors made subjective judgements, such as assumptions on significant accounting estimates.

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole. We used the outputs of our risk assessment, our understanding of the Group and the Parent Company, their environment, controls, and critical business processes, to consider qualitative factors to ensure that we obtained sufficient coverage across all financial statement line items.

Independent auditor's report continued
to the members of Carclo plc

Parent Company materiality continued
Our Group audit scope included an audit of the Group and the Parent Company financial statements of Carclo plc. Based on our risk assessment, of the Group's nine reporting components, seven were subject to full scope audits for Group purposes and two were subject to specified risk-focused audit procedures. For the other non-trading entities within the Group, we performed desktop analytical procedures at an aggregated Group level to assess whether there were any significant risks of material misstatement within these entities.

In addition to the Parent Company financial statements, which were subject to full scope audit, the components within the scope of our audit work accounted for the following percentages of the Group's results:

	Number of components	Total Group revenue	Group loss before tax	Total Group assets
Full scope	7	92%	205%	94%
Risk based audit procedures	2	8%	-105%	6%
Total	**9**	**100%**	**100%**	**100%**

The audit of the UK components, including the audit of the Parent Company, were undertaken by the Group audit team. The Group audit team instructed component auditors to carry out audit procedures in relation to components not based in the UK, covering the US, China, India, France and the Czech Republic. The instructions covered the significant areas of audit focus including, where relevant, the key audit matters detailed above and the information to be reported back to the Group audit team. Additionally, the work carried out by the US team was reviewed in detail by the Group audit team. The Group audit team approved all of the significant component materiality levels.

As part of the process, the Group audit team held meetings with the component auditors at both the planning and completion stage, as well as during the audit fieldwork as required. At these meetings, the Group audit team discussed the audit strategy and the findings reported to the Group audit team by the component auditors, with any further work required by the Group audit team then being performed by the component auditor, as required. The Group audit team reviewed key working papers prepared by the component auditors.

At the Parent Company level, we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information.

Other information
The other information comprises the information included in the Annual Report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. 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.

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 course of audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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 this regard.

Independent auditor's report continued

to the members of Carclo plc

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with 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 those reports have been prepared in accordance with applicable legal requirements;
- the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Guidance and Transparency Rules sourcebook made by the Financial Conduct Authority (the FCA Rules), is consistent with the financial statements and has been prepared in accordance with applicable legal requirements; and
- information about the Parent Company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the FCA Rules.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Group and the Parent Company and their environment obtained in the course of the audit, we have not identified material misstatements in the:

- the Strategic report or the Directors' report; or
- information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 of the FCA Rules.

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

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the directors' remuneration report to be audited 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; or
- a corporate governance statement has not been prepared by the Parent Company.

Corporate governance statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to Carclo Plc's compliance with the provisions of the UK Corporate Governance Statement specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements, or our knowledge obtained during the audit:

- Directors' statement with regards the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified, set out on page 101;
- Directors' explanation as to its assessment of the entity's prospects, the period this assessment covers and why they period is appropriate, set out on pages 56 to 57;
- Directors' statement on fair, balanced and understandable, set out on page 101;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks, set out on pages 46 to 55;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems, set out on page 69; and
- The section describing the work of the audit committee, set out on pages 68 to 71.

Independent auditor's report continued

to the members of Carclo plc

Responsibilities of Directors

As explained more fully in the directors' responsibilities statement set out on page 101, 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 Group's and the Parent 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 Group or the Parent 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.

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

Based on our understanding of the Group and the Parent Company and their industry, we have considered that non-compliance with the following laws and regulations might have a material effect on the financial statements: employment regulation, health and safety regulation, anti-bribery, corruption and fraud, anti-money laundering regulation, modern slavery, and GDPR.

To help us identify instances of non-compliance with these laws and regulations, and in identifying and assessing the risks of material misstatement in respect to non-compliance, our procedures included, but were not limited to:

- Gaining an understanding of the legal and regulatory framework applicable to the Group and the Parent Company, the industry in which they operate, and the structure of the Group, and considering the risk of acts by the Group and the Parent Company which were contrary to the applicable laws and regulations, including fraud;
- Inquiring of the directors, management and, where appropriate, those charged with governance, as to whether the Group and the Parent Company is in compliance with laws and regulations, and discussing their policies and procedures regarding compliance with laws and regulations;
- Inspecting correspondence with relevant licensing or regulatory authorities;
- Reviewing minutes of directors' meetings in the year; and
- Discussing amongst the engagement team the laws and regulations listed above and remaining alert to any indications of non-compliance.

We also considered those laws and regulations that have a direct effect on the preparation of the financial statements, such as tax legislation, pension legislation, the Companies Act 2006 and breaches of the regulatory requirements of the FCA.

In addition, we evaluated the directors' and management's incentives and opportunities for fraudulent manipulation of the financial statements, including the risk of management override of controls, and determined that the principal risks related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates, in particular in relation to valuation and impairment of intangible assets, valuation and impairment of investment in subsidiaries, revenue recognition (which we pinpointed to the cut-off and occurrence assertions) and significant one-off or unusual transactions.

Independent auditor's report continued

to the members of Carclo plc

Auditor's responsibilities for the audit of the financial statements continued

Our procedures in relation to fraud included but were not limited to:

- Making enquiries of the directors and management on whether they had knowledge of any actual, suspected or alleged fraud;
- Gaining an understanding of the internal controls established to mitigate risks related to fraud;
- Discussing amongst the engagement team the risks of fraud; and
- Addressing the risks of fraud through management override of controls by performing journal entry testing.

The primary responsibility for the prevention and detection of irregularities, including fraud, rests with both those charged with governance and management. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

The risks of material misstatement that had the greatest effect on our audit are discussed in the "Key audit matters" section of this report.

A further description of our responsibilities is available on the Financial Reporting Council's website at **www.frc.org.uk/auditorsresponsibilities**. This description forms part of our auditor's report.

Other matters which we are required to address

Following the recommendation of the Audit Committee, we were appointed by the Board of Directors on 14 April 2020 to audit the financial statements for the year ended 31 March 2020 and subsequent financial periods. The period of total uninterrupted engagement is four years, covering the years ended 31 March 2020 to 31 March 2023.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company and we remain independent of the Group and the Parent Company in conducting our audit.

Our audit opinion is consistent with the additional report to the Audit Committee.

Use of the audit 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.

Gavin Barclay (Senior Statutory Auditor)
For and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor
30 Old Bailey
London
EC4M 7AU

Date: 20 July 2023

Consolidated income statement

for the year ended 31 March 2023

	Notes	2023 £000	2022 £000
Continuing operations:			
Revenue	6	**143,445**	128,576
Underlying operating profit		**5,939**	6,096
COVID-19-related US government grant income	10	**–**	2,087
Exceptional items	9	**(4,710)**	721
Operating profit	3, 7	**1,229**	8,904
Finance revenue	11	**218**	77
Finance expense	11	**(3,967)**	(3,066)
(Loss)/profit before tax		**(2,520)**	5,915
Income tax expense	12	**(1,437)**	(809)
(Loss)/profit after tax but before profit on discontinued operations		**(3,957)**	5,106
Discontinued operations:			
Profit on discontinued operations, net of tax	4	**–**	693
(Loss)/profit for the period		**(3,957)**	5,799
Attributable to:			
Equity holders of the Company		**(3,957)**	5,799
Non-controlling interests		**–**	–
		(3,957)	5,799
(Loss)/earnings per ordinary share	13		
Basic – continuing operations		**(5.4)p**	7.0p
Basic – discontinued operations		**–**	0.9p
Basic		**(5.4)p**	7.9p
Diluted – continuing operations		**(5.4)p**	6.9p
Diluted – discontinued operations		**–**	0.9p
Diluted		**(5.4)p**	7.9p

Consolidated statement of comprehensive income

for the year ended 31 March 2023

	2023 £000	2022 £000
(Loss)/profit for the period	**(3,957)**	5,799
Other comprehensive (expense)/income		
Items that will not be reclassified to the income statement		
Remeasurement (losses)/gains on defined benefit scheme	**(10,577)**	8,480
Deferred tax arising	**–**	–
Total items that will not be reclassified to the income statement	**(10,577)**	8,480
Items that are or may in the future be reclassified to the income statement		
Foreign exchange translation differences	**1,129**	1,840
Net investment hedge	**818**	440
Deferred tax arising	**(190)**	(127)
Total items that are or may in the future be reclassified to the income statement	**1,757**	2,153
Other comprehensive (expense)/income, net of tax	**(8,820)**	10,633
Total comprehensive (expense)/income for the year	**(12,777)**	16,432
Attributable to:		
Equity holders of the Company	**(12,777)**	16,432
Non-controlling interests	**–**	–
Total comprehensive (expense)/income for the period	**(12,777)**	16,432

Consolidated statement of financial position

as at 31 March 2023

	Notes	2023 £000	2022 £000
Non-current assets			
Intangible assets	15	**23,463**	22,714
Property, plant and equipment	16	**45,321**	46,964
Deferred tax assets	23	**1,185**	1,403
Trade and other receivables	19	**–**	115
Total non-current assets		**69,969**	71,196
Current assets			
Inventories	17	**15,203**	16,987
Contract assets	18	**5,763**	7,700
Trade and other receivables	19	**21,383**	19,702
Cash and cash deposits	20	**10,354**	12,347
Non-current assets classified as held for sale	21	**–**	266
Total current assets		**52,703**	57,002
Total assets		**122,672**	128,198
Non-current liabilities			
Loans and borrowings	22	**39,668**	41,804
Deferred tax liabilities	23	**4,917**	4,878
Contract liabilities	6	**–**	3,099
Retirement benefit obligations	24	**34,493**	25,979
Total non-current liabilities		**79,078**	75,760

Consolidated statement of financial position continued

as at 31 March 2023

	Notes	2023 £000	2022 £000
Current liabilities			
Loans and borrowings	22	**5,046**	2,948
Trade and other payables	26	**21,408**	21,062
Current tax liabilities		**372**	170
Contract liabilities	6	**4,689**	3,755
Provisions	25	**473**	87
Total current liabilities		**31,988**	28,022
Total liabilities		**111,066**	103,782
Net assets		**11,606**	24,416
Equity			
Ordinary share capital issued	27	**3,671**	3,671
Share premium		**7,359**	7,359
Translation reserve	28	**9,243**	7,486
Retained earnings	28	**(8,641)**	5,926
Total equity attributable to equity holders of the Company		**11,632**	24,442
Non-controlling interests		**(26)**	(26)
Total equity		**11,606**	24,416

Approved by the Board of Directors on 19 July 2023 and signed on its behalf by:

Frank Doorenbosch
Director

David Bedford
Director

Registered Number 196249

Consolidated statement of changes in equity

for the year ended 31 March 2023

	Attributable to equity holders of the Company						
	Share capital £000	Share premium £000	Translation reserve £000	Retained earnings £000	Total £000	Non-controlling interests £000	Total equity £000
Balance at 1 April 2021	3,671	7,359	5,333	(8,426)	7,937	(26)	7,911
Profit for the year	–	–	–	5,799	5,799	–	5,799
Other comprehensive income/(expense):							
Foreign exchange translation differences	–	–	1,840	–	1,840	–	1,840
Net investment hedge	–	–	440	–	440	–	440
Remeasurement gains on defined benefit scheme	–	–	–	8,480	8,480	–	8,480
Taxation on items above	–	–	(127)	–	(127)	–	(127)
Total comprehensive income for the period	–	–	2,153	14,279	16,432	–	16,432
Transactions with owners recorded directly in equity:							
Share-based payments	–	–	–	73	73	–	73
Taxation on items recorded directly in equity	–	–	–	–	–	–	–
Balance at 31 March 2022	3,671	7,359	7,486	5,926	24,442	(26)	24,416
Balance at 1 April 2022	**3,671**	**7,359**	**7,486**	**5,926**	**24,442**	**(26)**	**24,416**
Loss for the year	**–**	**–**	**–**	**(3,957)**	**(3,957)**	**–**	**(3,957)**
Other comprehensive income/(expense):							
Foreign exchange translation differences	**–**	**–**	**1,129**	**–**	**1,129**	**–**	**1,129**
Net investment hedge	**–**	**–**	**818**	**–**	**818**	**–**	**818**
Remeasurement losses on defined benefit scheme	**–**	**–**	**–**	**(10,577)**	**(10,577)**	**–**	**(10,577)**
Taxation on items above	**–**	**–**	**(190)**	**–**	**(190)**	**–**	**(190)**
Total comprehensive income/(expense) for the period	**–**	**–**	**1,757**	**(14,534)**	**(12,777)**	**–**	**(12,777)**
Transactions with owners recorded directly in equity:							
Share-based payments	**–**	**–**	**–**	**(33)**	**(33)**	**–**	**(33)**
Taxation on items recorded directly in equity	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Balance at 31 March 2023	**3,671**	**7,359**	**9,243**	**(8,641)**	**11,632**	**(26)**	**11,606**

Consolidated statement of cash flows

for the year ended 31 March 2023

	Notes	2023 £000	2022 £000
Cash generated from operations	30	**7,778**	6,780
Interest paid		**(2,955)**	(2,502)
Tax paid		**(1,051)**	(1,309)
Net cash from operating activities		**3,772**	2,969
Cash flows from/(used in) investing activities			
Proceeds from sale of business, net of cash disposed		**–**	693
Proceeds from sale of property, plant and equipment		**1,390**	20
Interest received		**218**	77
Purchase of property, plant and equipment		**(2,313)**	(4,804)
Purchase of intangible assets		**(104)**	(135)
Net cash used in investing activities		**(809)**	(4,149)
Cash flows from/(used in) financing activities			
Drawings on existing and new facilities		**359**	1,575
Refinancing costs		**(250)**	–
Proceeds from sale and leaseback of property, plant and equipment		**1,222**	1,410
Repayment of borrowings excluding lease liabilities		**(1,800)**	(2,282)
Repayment of other loan facilities		**(102)**	–
Repayment of lease liabilities		**(4,104)**	(3,196)
Net cash used in financing activities		**(4,675)**	(2,493)
Net decrease in cash and cash equivalents		**(1,712)**	(3,673)
Cash and cash equivalents at beginning of period		**12,347**	15,485
Effect of exchange rate fluctuations on cash held		**(281)**	535
Cash and cash equivalents at end of period		**10,354**	12,347
Cash and cash equivalents comprise:			
Cash and cash deposits		**10,354**	12,347
		10,354	12,347

Notes to the consolidated financial statements

for the year ended 31 March 2023

1 Basis of preparation

The Group financial statements have been prepared and approved by the Directors in accordance with UK-adopted international accounting standards. The Company has elected to prepare its parent company financial statements in accordance with FRS 101; these are presented on pages 182 to 196. The presentational currency of these financial statements is GBP, with amounts presented in round thousands, except where otherwise stated.

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

Judgements made by the Directors in the application of these accounting policies that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 2.

Going concern

The financial statements are prepared on the going concern basis.

Group performance during the year has enabled capital investment to be made whilst retaining a stable financial position, with net debt excluding lease liabilities as of 31 March 2023 increasing to £22.5 million (2022: £21.5 million). Net debt including lease liabilities at 31 March 2023 was £34.4 million (2022: £32.4 million), with the principal reason behind the increase being foreign exchange movements of £1.5 million.

On 2 September 2022, the Group successfully refinanced with the Company's bank, concluding a first amendment and restatement agreement relating to the multi-currency term and revolving facilities agreement dated 14 August 2020. The debt facilities available to the Group at 31 March 2023 comprise a term loan of £29.3 million, of which £1.4 million will be amortised by 31 March 2024, and a further £2.2 million amortised by 31 March 2025. The balance becomes payable by the termination date, 30 June 2025.

At 31 March 2023, the term loans were denominated as follows: sterling 14.2 million, US dollar 13.3 million and euro 4.9 million. The facility also includes a £3.5 million revolving credit facility, denominated in sterling, maturing on 30 June 2025.

Since the year-end there have been no significant changes to the Group's liquidity position. The term loan balances stood at sterling 10.2 million, US dollar 13.3 million and euro 4.9 million, totalling £27.0 million on 30 June 2023, with undrawn facilities of £1.5 million on the RCF.

As part of the original bank financing in August 2020 the Group became subject to four bank facility covenant tests. The quarterly covenants to be tested are:

- underlying interest cover;
- net debt to underlying EBITDA;
- core subsidiary underlying EBITA; and
- core subsidiary revenue.

Core subsidiaries are defined as Carclo Technical Plastics Ltd; Bruntons Aero Products Ltd; Carclo Technical Plastics (Brno) s.r.o; CTP Carrera Inc and Jacottet Industrie SAS, with CTP Taicang Co. Ltd and Carclo Technical Plastics Pvt Co Ltd being treated as non-core for the purposes of these covenants.

Following a more than doubling of the base rate in the first half of 2022/23, the Group reassessed its forecasts and concluded there was insufficient headroom available to meet all the agreed banking covenants in the event of certain downside scenarios taking place. Breach of any of these covenants could lead to the creditors calling in their debt, leaving the plc insolvent. As a result, at the half year, in recognition of a potential covenant breach, the Group issued a material uncertainty warning over its ability to continue trading as a going concern.

Since that time the Group has worked with the bank to amend the covenants and agreed adjustments to the Group's interest cover covenant for both the December 2022 and March 2023 testing points.

In December 2022 the Group announced the cancellation of a new business contract that would materially impact the results for 2022/23. Further discussions were held with the bank and, following a review of the Group's three-year plan up to March 2026, on 22 June 2023 the bank agreed to the Group's request to further amend the interest cover covenant to June 2025 and to an adjustment to the net debt to underlying EBITDA covenant to December 2023.

The banking covenants and thresholds set out in the recently renegotiated banking agreement are assumed to be in place throughout the going concern assessment period, and the legal documents surrounding this agreement have now been signed.

A schedule of contributions is also in place with the pension trustees with an agreed £3.5 million to be paid annually until 31 October 2039. Additional contributions also agreed are 25% of any surplus of 2023/24 underlying EBITDA over £18 million payable from 30 June 2024 to 31 May 2025, extending to 26% of any 2024/25 surplus payable from 30 June 2025 to 31 May 2026.

In addition, the pension scheme has the benefit of a fifth covenant to be tested each year up to and including 2023. The test requires any shortfall of pension deficit recovery contributions when measured against Pension Protection Fund priority drift (which is a measure of the increase in the UK Pension Protection Fund's potential exposure to the Group's pension scheme liabilities), to be met by a combination of cash payments to the scheme, plus a notional (non-cash) proportion of the increase in the underlying value of the CTP and Aerospace segments based on an EBITDA multiple for those businesses which is determined annually. This test will be completed on these audited financial statements and management expect this covenant to be met.

Notes to the consolidated financial statements continued

for the year ended 31 March 2023

1 Basis of preparation continued

Going Concern continued

The Group is subject to a number of key risks and uncertainties, as detailed in the Principal risks and uncertainties section on pages 46 to 55. Mitigation actions are also considered in this section. These risks and uncertainties have been considered in the base case and severe downside sensitivities and have been modelled accordingly.

The Directors have reviewed cash flow and covenant forecasts to cover the period at least twelve months from the date of signing these consolidated financial statements, considering the Group's available debt facilities and the terms of the arrangements with the Group's bank and the Group pension scheme.

The base case forecast includes assumptions around sales, margins, working capital and interest rates. The sensitivity analysis has considered the risks facing the Group and has modelled the impact of each in turn, as well as considering the impact of aggregating certain risk types and shows that the Group is able to operate within its available facilities and meet its agreed covenants as they arise. Furthermore, the Directors have reviewed sensitivity testing, modelling a range of severe downside scenarios. These sensitivities attempt to incorporate identified risks set out in the Principal risks and uncertainties section of this report.

Severe downside sensitivities modelled included a range of scenarios modelling the financial effects of: loss of business from discrete sites, an overall fall in gross margin of 1% across the Group, a fall in Group sales of 3% matched by a corresponding fall in cost of sales of the same amount, and interest rate risk.

The Group is not exposed to vulnerable sectors or vulnerable countries but does have certain key customers, which create risks and uncertainties. These risks and uncertainties are documented and the mitigating actions being taken are covered in detail in the Principal risks and uncertainties section on pages 46 to 55.

On the basis of this forecast and sensitivity testing, the Board has determined that it is reasonable to assume that the Group will continue to operate within the facilities available and will be able to adhere to the covenant tests to which it is subject throughout at least the twelve-month period from the date of signing the financial statements.

Accordingly, these financial statements are prepared on a going concern basis.

New standards, amendments and interpretations

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the accounting period beginning on or after 1 April 2022. The following new standards and amendments to standards are mandatory for the Group and have been adopted for the first time for the financial year beginning 1 April 2022:

- IAS 16 Property, Plant and Equipment (Amendment): Proceeds before intended use (effective date 1 January 2022);
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendment): Onerous contracts – Costs of Fulfilling a Contract (effective date 1 January 2022);
- IFRS 3 Business Combinations (Amendment): Reference to the Conceptual Framework (effective date 1 January 2022); and
- Annual Improvements to IFRSs (2018-2020 cycle) (effective date 1 January 2022).

These standards have not had a material impact on the consolidated financial statements.

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the accounting period beginning on or after 1 April 2023.

The Group has elected not to early adopt these standards, which are described below.

- IAS 1 Presentation of Financial Statements (Amendment): Classification of liabilities as current or non-current, deferral of effective date and Exposure Draft: Non-current liabilities with covenants (effective date 1 January 2023, although the IASB has tentatively decided to defer the effective date further to being not before 1 January 2024).
- IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Material Judgements (Amendment): Disclosure of accounting policies (effective date 1 January 2023).
- IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Amendment): Definition of accounting estimates (effective date 1 January 2023).
- IAS 12 Income Taxes: Deferred tax related to assets and liabilities arising from a single transaction (effective 1 January 2023).

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

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

Notes to the consolidated financial statements

continued

for the year ended 31 March 2023

1 Basis of preparation continued

Accounting policies

a) Basis of accounting

The financial statements are prepared on the historical cost basis except that derivative financial instruments, share options and defined benefit pension plan assets are stated at their fair value.

Certain items of property, plant and equipment that had been revalued to fair value on or prior to 1 April 2004, the date of transition to IFRS, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell.

b) Basis of consolidation

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group"). The parent company financial statements present information about the Company as a separate entity and not about its group. The results of any subsidiaries sold or acquired are included in the consolidated income statement up to, or from, the date control passes. Intra-group transactions, balances and profits are eliminated fully on consolidation. On acquisition of a subsidiary, all of the identifiable assets and liabilities existing at the date of acquisition are recorded at their fair values reflecting their condition at that date.

i) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognised amount (generally a fair value) of the identifiable assets acquired and liabilities assumed.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Transaction costs other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination, are expensed as incurred.

ii) Acquisitions of non-controlling interests

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result. Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

c) Goodwill

In respect of business combinations that occurred since 1 April 2004, goodwill arising on consolidation represents the excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired. Goodwill arising on acquisition of subsidiaries, joint ventures and businesses is capitalised as an asset.

In accordance with IFRS 1 and IFRS 3, goodwill at 1 April 2004 has been frozen and will not be amortised. Goodwill is allocated to cash generating units and is subject to an annual impairment review, with any impairment losses being recognised immediately in the income statement.

Any goodwill arising on the acquisition of an overseas subsidiary is retranslated at the balance sheet date.

d) Other intangible assets

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (see accounting policy e) and impairment losses (see accounting policy v).

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation (see accounting policy e) and impairment losses (see accounting policy v).

Notes to the consolidated financial statements

continued

for the year ended 31 March 2023

1 Basis of preparation continued

Accounting policies continued

d) Other intangible assets continued

Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

e) Amortisation

Intangible assets, other than goodwill, are amortised on a straight-line basis to write off the cost of the asset, less estimated residual value, over the estimated economic life of the asset. Patents and development costs are amortised over a period of up to ten years from the date upon which the patent or related development expenditure becomes available for use. Customer related intangibles are amortised over seven to ten years and computer software over three to five years.

f) Property, plant and equipment

The Group has taken the option provided by IFRS 1 to use its previous UK GAAP valuation as "deemed cost". Items of property, plant and equipment are stated at cost, or at deemed cost, less accumulated depreciation and impairment losses.

Depreciation on property, plant and equipment is provided using the straight-line method to write off the cost or valuation less estimated residual value, using the following depreciation rates:

Freehold buildings	2.0% - 5.0%
Plant and equipment	8.33% - 33.33%

No depreciation is provided on freehold land.

g) Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

As a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative standalone prices. However, for the leases of property, the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and the type of asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate; if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee; if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

Notes to the consolidated financial statements continued

for the year ended 31 March 2023

1 Basis of preparation continued

Accounting policies continued

g) Leases continued

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets in "property, plant and equipment" and lease liabilities in "loans and borrowings" in the statement of financial position.

Short-term leases and leases of low-value assets

The Group leases office and IT equipment with contract terms typically between one and ten years. The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases with a duration of one year or less. The Group recognises the lease payments associated with these leases in the income statement as an expense on a straight-line basis over the lease term.

h) Borrowings

The Group measures all debt instruments (whether financial assets or liabilities) initially at fair value, which equates to the principal value of the consideration paid or received. Subsequent to initial measurement, debt instruments are measured at amortised cost by applying an approximation[1] of the effective interest method. Transaction costs (any such costs incremental and directly attributable to the issue of the financial instrument) are included in the calculation of the effective interest rate and are amortised over the life of the instrument.

Debt instruments denominated in foreign currencies are revalued using period-end exchange rates, see accounting policy t)v), for the Group hedge accounting policy.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

i) Inventories

Inventories are stated at the lower of cost and net realisable value.
Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.
The cost of inventory is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

j) Revenue recognition

Revenue arises on the Group's principal activities. Further details are set out in note 6.

To determine whether to recognise revenue, the Group follows the five-step process as prescribed in IFRS 15:

1. identifying the contract with a customer;
2. identifying the performance obligations;
3. determining the transaction price;
4. allocating the transaction price to the performance obligations; and
5. recognising revenue when/as performance obligation(s) are satisfied.

The Group sometimes enters into transactions involving a range of the Group's products and services which in the CTP segment, would generally be for design and engineering and production.

The total transaction price for a contract is allocated amongst the various performance obligations based on their relative standalone selling prices, or, in the absence of a standalone selling price, on a cost plus margin basis. The transaction price for a contract excludes any amounts collected on behalf of third parties.

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers.

The Group recognises contract liabilities for consideration received in respect of unsatisfied performance obligations and reports these amounts as contract liabilities in the statement of financial position. Similarly, if the Group satisfies a performance obligation before it receives the consideration, the Group recognises either a contract asset or a receivable in its statement of financial position, depending on whether something other than the passage of time is required before the consideration is due.

k) Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to sterling at foreign exchange rates ruling at the dates the fair value was determined.

1. The Company records borrowings via a combination of principle interest and amortised arrangement fees, the resulting position of which is annually tested against the effective interest rate method to demonstrate they are materially in line.

Notes to the consolidated financial statements

continued

for the year ended 31 March 2023

1 Basis of preparation continued

Accounting policies continued

l) Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to sterling at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to sterling at rates approximating to the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised directly in a separate component of equity.

m) Net investment in foreign operations

Exchange differences arising from the translation of the net investment in foreign operations, and of related hedges meeting the criteria for hedge accounting under IFRS 9, are taken to the translation reserve. They are released into the income statement upon disposal.

The Group has taken advantage of relief available under IFRS 1 to not separately recognise the cumulative translation differences for all foreign operations at the date of transition, 1 April 2004.

n) Dividends

Dividends are only recognised as a liability to the extent that they are declared prior to the year end. Unpaid dividends that do not meet these criteria are disclosed in the note to the financial statements.

o) Net operating expenses

Net operating expenses incurred by the business are written off to the income statement as incurred.

p) Net financing costs

Net financing costs comprise interest payable on borrowings calculated using an approximation[1] of the effective interest rate method, interest receivable on funds invested, dividend income and gains and losses on hedging instruments that are recognised in the income statement.

Interest is recognised in the income statement as it accrues, using the effective interest method.

q) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Bank overdrafts are shown within borrowings in current liabilities in the balance sheet unless they are part of the net overdraft facility which has a £nil net limit, in which case they are offset against cash.

r) Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity or the statement of comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date in the countries where the Group operates and any adjustments to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends from foreign operations are recognised at the same time as the liability to pay the related dividend.

Companies within the Group may be entitled to claim special tax deductions in relation to qualifying expenditure (e.g. Research and Development). The Group accounts for such allowances as tax credits, which means that the allowance reduces the tax payable and current tax expense.

1. Interest payable is a combination of principle interest and amortised arrangement fees, the resulting charge of which is annually tested against the effective interest rate method to demonstrate they are materially in line.

Notes to the consolidated financial statements

continued

for the year ended 31 March 2023

1 Basis of preparation continued

Accounting policies continued

s) Retirement benefit costs

The Group operates a defined benefit pension scheme and also makes payments into defined contribution schemes for employees. The pension payable under the defined benefit scheme is calculated based on years of service up to retirement and pensionable salary at the point of retirement.

The net obligation in respect of the defined benefit plan is the present value of the defined benefit obligations less the fair value of the plan's assets at the balance sheet date. The assumptions used to calculate the present value of the defined benefit obligations are detailed in note 24.

IFRIC 14 requires that where plan assets exceed the defined benefit obligation, an asset is recognised to the extent that an economic benefit is available to the Group, in accordance with the terms of the plan and applicable statutory requirements, and the benefit should be realisable during the life of the plan or on the settlement of the plan liabilities.

The operating and financing costs of the scheme are recognised separately in the income statement in the period they arise.

Payments to the defined contribution schemes are accounted for on an accruals basis. Once the payments have been made the Group has no further obligation.

t) Financial instruments

i) Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant finance component) or financial liability is initially measured at fair value (plus transaction costs that are directly attributable to its acquisition or issue for an item not at fair value through profit or loss ("FVTPL")). A trade receivable without a significant financing component is initially measured at the transaction price.

The fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between third parties. Where available, market values are used to determine fair values, otherwise fair values are calculated by discounting expected cash flows at prevailing interest and exchange rates.

ii) Classification and subsequent measurement

On initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income ("FVOCI") – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income ("OCI"). This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL, if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets at FVTPL are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

Financial assets at amortised cost are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Equity investments at FVOCI are subsequently measured at fair value. Dividends are recognised as income in the profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

Notes to the consolidated financial statements continued

for the year ended 31 March 2023

1 Basis of preparation continued

Accounting policies continued

t) Financial instruments continued

ii) Classification and subsequent measurement continued

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit and loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit and loss. Any gain or loss on derecognition is also recognised in profit and loss.

iii) Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flow in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on modified terms is recognised at fair value. On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit and loss.

iv) Offsetting

Financial assets and financial liabilities are offset and the net amounts presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends to settle them on a net basis or to realise the asset and settle the liability simultaneously.

v) Hedge accounting

When a non-derivative financial liability is designated as the hedging instrument in a hedge of a net investment in a foreign operation, the effective portion of foreign exchange gains and losses is recognised in OCI and presented in the translation reserve within equity. Any ineffective portion of the foreign exchange gains and losses is recognised immediately in profit or loss. The amount recognised in OCI is reclassified to profit or loss as a reclassification adjustment on disposal of foreign operations.

u) Share-based payments

The Group issues awards structured as equity-settled share-based payments and cash-settled share-based payments to certain employees in exchange for services rendered by them. The fair value of the equity-settled share-based award is calculated at date of grant and is expensed on a straight-line basis over the vesting period with a corresponding increase in equity. The fair value of the cash-settled award is calculated at date of grant and recognised as an expense over the vesting period based upon the cash expected to be paid. The fair value of cash-settled share-based payments is recalculated at each reporting date and the accrual revised accordingly. Both valuations are based on the Group's estimate of share awards that will eventually vest and take into account movement of non-market conditions, being service conditions and financial performance, if relevant.

v) Impairment

i) Non-financial assets

For non-financial assets the continuing policy is as follows:

The carrying amounts of the Group's assets, other than inventories (see accounting policy i) and deferred tax assets (see accounting policy r), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash generating units or group of units and then to reduce the carrying amount of the other assets in the unit or group of units on a pro-rata basis.

Notes to the consolidated financial statements

continued

for the year ended 31 March 2023

1 Basis of preparation continued
Accounting policies continued
v) **Impairment** continued
ii) Financial assets

The Group measures loss allowances for estimate of expected credit losses ("ECLs") on:

- financial assets measured at amortised cost; and
- contract assets (as defined in IFRS 15).

The Group measures loss allowances at an amount equal to lifetime ECL, except for bank balances for which the credit risk has not increased significantly.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 120 days past due.

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the financial asset is more than 120 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

Twelve-month ECLs are the portion of ECLs that result from default events that are possible within the twelve months after the reporting date (or a shorter period if the expected life of the instrument is less than twelve months).

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the contracted cash flows and the cash flows the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the assets have occurred.

w) Exceptional items

In order for users of the accounts to better understand the underlying performance of the Group, the Board has separately disclosed transactions which, whilst falling within the ordinary activities of the Group, are, by virtue of their size or incidence, considered to be exceptional in nature. Such transactions include, but are not limited to: rationalisation, restructuring and refinancing of the Group, costs of impairment, one-off retirement benefit effects, litigation costs and material bad debts.

Non-operating exceptional items arise from costs incurred outside the ordinary course of the Group's business. Such items include profits, losses and associated costs arising on the disposal of surplus properties and businesses.

x) Segment reporting

Segmental information is presented on the same basis as that used for internal reporting to the chief operating decision maker.

y) Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability to the extent that the effect of discounting is material. Provisions totalling £0.5 million have been recognised at 31 March 2023 (2022: £0.1 million); further details can be found in note 25.

Notes to the consolidated financial statements

continued

for the year ended 31 March 2023

1 Basis of preparation continued

Accounting policies continued

z) Non-current assets held for sale and discontinued operations

A non-current asset or a group of assets containing a non-current asset (a disposal group) is classified as held for sale if its carrying amount will be recovered principally through sale rather than through continuing use, it is available for immediate sale and sale is highly probable within one year.

On initial classification as held for sale, non-current assets and disposal groups are measured at the lower of previous carrying amount and fair value less costs to sell with any adjustments taken to profit or loss. The same applies to gains and losses on subsequent remeasurement although gains are not recognised in excess of any cumulative impairment loss. Any impairment loss on a disposal group is first allocated to goodwill, and then to remaining assets and liabilities on a pro-rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets and investment property, which continue to be measured in accordance with the Group's accounting policies. Intangible assets and property, plant and equipment once classified as held for sale or distribution are not amortised or depreciated.

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative income statement is restated as if the operation has been discontinued from the start of the comparative period.

aa) Government grants

Once there is reasonable assurance that the Group will comply with any conditions attached to an income-based Government grant, such grants are recognised in the income statement over the period in which the related costs are recognised as an expense. They are presented by deducting the grant income from the related expense, unless by virtue of size or incidence separate disclosure is required.

ab) Current versus non-current disclosure

Current assets are assets which are due to be received within twelve months of the reporting date. Current liabilities are those which are due to be settled within twelve months of the reporting date, or where the Group does not have an unconditional right to defer for at least twelve months after the reporting date. All other liabilities are classified as non-current.

2 Accounting estimates and judgements

The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

The estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. These estimates and assumptions form the basis for making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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 revision and future periods if the revision affects both current and future periods.

The following are the critical judgements and key sources of estimation uncertainty that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements. Management has discussed these with the Audit and Risk Committee. These should be read in conjunction with the significant accounting policies provided in the notes to the financial statements.

Going concern

Note 1 contains information about the preparation of these financial statements on a going concern basis.

Key judgements

Management has exercised judgement over the likelihood of the Group being able to continue to operate within its available facilities and in accordance with its covenants for at least twelve months from the date of signing these financial statements. Judgement has been applied over forecast profit, debt levels and interest rates, particularly base rates. This determines whether the Group should operate the going concern basis of preparation for these financial statements.

Impairment of assets

Notes 15 and 16 contain information about management's estimates of the recoverable amount of cash generating units and their risk factors.

Notes to the consolidated financial statements

continued

for the year ended 31 March 2023

2 Accounting estimates and judgements continued
Impairment of assets continued

Key judgements

Management has exercised judgement over the underlying assumptions within the valuation models and has applied judgement to determine the Group's cash generating units to which goodwill is allocated and against which impairment testing is performed. These are key factors in their assessment of whether there is any impairment in related goodwill or other assets. Goodwill at 31 March 2023 amounts to £23.0 million (2022: £22.0 million).

Management has exercised judgement when considering if there have been indicators of impairment. Where indications exist, management has estimated recoverable amount as detailed below.

Key sources of estimation uncertainty

The Group tests whether goodwill has suffered any impairment and considers whether there is any indication of impairment on an annual basis. As set out in more detail in notes 15 and 16, the recoverable amounts may be based on either value in use calculations or fair value less costs of disposal considerations. The former requires the estimation of future cash flows and the choice of a discount rate in order to calculate the present value of the future cash flows, the latter method requires the estimation of fair value.

Details of the sensitivity of assumptions are included in note 15.

Pension assumptions

Note 24 contains information about management's estimate of the net liability for defined benefit obligations and their risk factors. The pension liability at 31 March 2023 amounts to £34.5 million (2022: £26.0 million).

Key sources of estimation uncertainty

The value of the defined benefit pension plan obligation is determined by long-term actuarial assumptions. These assumptions include discount rates, inflation rates and mortality rates. Differences arising from actual experience or future changes in assumptions will be reflected in the Group's consolidated statement of comprehensive income. The Group exercises judgement in determining the assumptions to be adopted after discussion with a qualified actuary. Details of the key actuarial assumptions used and of the sensitivity of these assumptions are included within note 24.

In the prior year, the Scheme introduced a right for members to Pension Increase Exchange ("PIE"). Having taken actuarial advice, the Executive management exercised judgement that, similar to the Bridging Pension Option adopted in the year to 31 March 2021, 40% of members would take the PIE option at retirement. There is no change to either assumption in the current year. Any change in estimate would be recognised as remeasurement gains/(losses) through the consolidated statement of comprehensive income.

Lease break options

Note 5 contains information about lease break options.

Key judgements

Management has applied judgement when determining the expected certainty that a break option within a lease will be exercised. Note 5 details the amount by which lease liabilities would decrease if the Group were to exercise break options that at 31 March 2023 management is reasonably certain will not be exercised.

Revenue recognition

As revenue from design and engineering contracts is recognised over time, the amount of revenue recognised in a reporting period depends on the extent to which the performance obligations have been satisfied.

Key judgements

The revenue recognised on certain contracts in the CTP segment required management to use judgement to apportion contract revenue to the design and engineering performance obligations.

Key sources of estimation uncertainty

Revenue recognised on certain contracts in the CTP segment required management to estimate the remaining costs to complete the design and engineering performance obligation in order to determine the percentage of completion and revenue to recognise in respect of those performance obligations.

Notes to the consolidated financial statements

continued

for the year ended 31 March 2023

2 Accounting estimates and judgements continued

Recognition of deferred tax assets

Note 23 contains information about the deferred tax assets recognised in the consolidated statement of financial position.

Key judgements

Management has exercised judgement over the level of future taxable profits in the UK against which to relieve the Group's deferred tax assets. On this basis management believes it is no longer appropriate to recognise deferred tax assets (other than a £0.3 million deferred tax asset which is available to off-set against a deferred tax liability of £0.3 million arising on historic property revaluations), and at 31 March 2023 UK deferred tax assets of £0.7 million have been derecognised (2022: £0.7 million recognised).

Classification of exceptional items

Note 9 contains information about items classified as exceptional.

Key judgements

Management has exercised judgement over whether items are exceptional as set out in the Group's accounting policy – see note 1w.

Non-current assets classified as held for sale

Note 21 contains information about assets classified as held for sale; at 31 March 2023 these amounted to £nil (2022: £0.3 million).

Key judgements

Management has applied judgement in determining whether a sale is highly probable at 31 March 2023 and as such whether non-current assets are classified as held for sale at the balance sheet date. Management has determined that these criteria did not apply to any non-current assets at 31 March 2023.

Expected credit losses

The allowance for expected credit losses (ECL) in note 19 is calculated on a customer-by-customer basis, using a combination of internally and externally sourced information, including expected future default levels and future predicted cash collection levels.

Key judgements

Management has applied judgement when setting expectations, these are derived from past defaults/trends and future projections.

3 Segment reporting

The Group is organised into two, separately managed, business segments – CTP and Aerospace. These are the segments for which summarised management information is presented to the Group's chief operating decision maker (comprising the Main Board and Group Executive Committee).

The CTP segment supplies value-adding engineered solutions for the life science, optical and precision component industries. This business operates internationally in a fast-growing and dynamic market underpinned by rapid technological development.

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

The Central costs relate to the cost of running the Group, plc and non-trading companies.

The LED Technologies segment presented as a discontinued operation in the prior year was a leader in the development of high-power LED lighting for the premium automotive industry and was disposed of in the year to 31 March 2020. See note 4.

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

Notes to the consolidated financial statements

continued

for the year ended 31 March 2023

3 Segment reporting continued

Analysis by business segment

The segment results for the year ended 31 March 2023 were as follows:

	CTP (continuing) £000	Aerospace (continuing) £000	Central (continuing) £000	Group total £000
Consolidated income statement				
External revenue	136,814	6,631	–	143,445
External expenses	(129,493)	(5,111)	(2,902)	(137,506)
Underlying operating profit/(loss)	7,321	1,520	(2,902)	5,939
Exceptional operating items	(2,752)	–	(1,958)	(4,710)
Operating profit/(loss)	4,569	1,520	(4,860)	1,229
Net finance expense				(3,749)
Income tax expense				(1,437)
Loss for the period				(3,957)
Consolidated statement of financial position				
Segment assets	114,231	5,886	2,555	122,672
Segment liabilities	(40,000)	(1,198)	(69,868)	(111,066)
Net assets/(liabilities)	74,231	4,688	(67,313)	11,606
Other segmental information				
Capital expenditure on property, plant and equipment	5,474	287	49	5,810
Capital expenditure on computer software	36	–	–	36
Capital expenditure on other intangibles	68	–	–	68
Depreciation	7,516	223	76	7,815
Impairment of property, plant and equipment	783	–	–	783
Amortisation of computer software	43	–	101	144
Amortisation of other intangibles	67	–	–	67
Impairment of intangible fixed assets	208	–	–	208

Notes to the consolidated financial statements

continued

for the year ended 31 March 2023

3 Segment reporting continued

Analysis by business segment continued

The segment results for the year ended 31 March 2022 were as follows:

	CTP (continuing) £000	Aerospace (continuing) £000	Central (continuing) £000	Total (continuing operations) £000	LED Technologies (discontinued) £000	Group total £000
Consolidated income statement						
External revenue	123,869	4,707	–	128,576	–	128,576
Expenses	(115,476)	(4,030)	(2,974)	(122,480)	–	(122,480)
Underlying operating profit/(loss)	8,393	677	(2,974)	6,096	–	6,096
COVID-19-related US government grant income	2,087	–	–	2,087	–	2,087
Operating profit/(loss) before exceptional items	10,480	677	(2,974)	8,183	–	8,183
Exceptional operating items	–	–	721	721	–	721
Operating profit/(loss)	10,480	677	(2,253)	8,904	–	8,904
Net finance expense				(2,989)	–	(2,989)
Income tax expense				(809)	–	(809)
Profit from operating activities after tax				5,106	–	5,106
Profit on disposal of discontinued operations, net of tax – see note 4				–	693	693
Profit for the period				5,106	693	5,799
Consolidated statement of financial position						
Segment assets	121,119	6,418	661	128,198	–	128,198
Segment liabilities	(40,686)	(998)	(62,098)	(103,782)	–	(103,782)
Net assets/(liabilities)	80,433	5,420	(61,437)	24,416	–	24,416
Other segmental information						
Capital expenditure on property, plant and equipment	9,529	36	143	9,708	–	9,708
Capital expenditure on computer software	62	–	73	135	–	135
Depreciation	6,533	234	58	6,825	–	6,825
Amortisation of computer software	16	–	120	136	–	136
Amortisation of other intangibles	67	–	–	67	–	67

Notes to the consolidated financial statements

continued

for the year ended 31 March 2023

3 Segment reporting continued

Analysis by geographical segment

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

	External revenue		Net segment (liabilities)/assets		Expenditure on tangible and intangible fixed assets	
	2023 £000	2022 £000	**2023 £000**	2022 £000	**2023 £000**	2022 £000
United Kingdom	**14,157**	12,632	**(40,329)**	(29,367)	**1,923**	1,651
North America	**70,955**	65,296	**27,909**	27,267	**3,204**	6,918
Rest of world	**58,333**	50,648	**24,026**	26,516	**787**	1,274
	143,445	128,576	**11,606**	24,416	**5,914**	9,843

The analysis of segment revenue represents revenue from external customers based upon the location of the customer.

The analysis of segment assets and capital expenditure is based upon the location of the assets.

The material components of the Central segment assets and liabilities are retirement benefit obligation net liabilities of £34.493 million (2022: net liabilities of £25.979 million), and net borrowings of £31.250 million (2022: £36.134 million).

One CTP customer accounted for 28.4% (2022: 37.8%) and another customer for 10.5% (2022: 10.4%) of Group revenues from continuing operations and similar proportions of trade receivables.

No other customer accounted for more than 10.0% of revenues from continuing operations in the year.

Deferred tax assets by geographical location are as follows: United Kingdom £0.283 million (2022: £0.952 million), North America £0.800 million (2022: £0.288 million), rest of world £0.102 million (2022: £0.163 million).

Total non-current assets by geographical location are as follows: United Kingdom £22.569 million (2022: £24.159 million), North America £28.839 million (2022: £28.142 million), rest of world £18.561 million (2022: £18.895 million).

4 Discontinued operation

There were no new discontinued operations in the twelve months ended 31 March 2023 or in the prior year comparative. Prior year proceeds were in respect to amounts received from the administrators of Wipac Ltd which was part of the former LED Technologies segment, classified as discontinued in the year to 31 March 2020. Management does not expect to receive any further proceeds from the administrators of Wipac Ltd.

Notes to the consolidated financial statements continued

for the year ended 31 March 2023

5 Leases

The Group's leases are principally for warehouse and manufacturing facilities with a small number of vehicles and other plant and machinery.

Information about leases for which the Group is a lessee is presented below.

Amounts recognised in the statement of financial position

i) Right-of-use assets

Right-of-use assets related to leased properties and plant and equipment are presented as property, plant and equipment (see note 16).

	Land and buildings £000	Plant and equipment £000	Total £000
Balance at 1 April 2021	6,152	836	6,988
Depreciation charge for the year	(1,877)	(405)	(2,282)
Additions to right-of-use assets	2,255	4,563	6,818
Effect of movements in foreign exchange	157	32	189
Balance at 31 March 2022	6,687	5,026	11,713
Depreciation charge for the year	**(1,712)**	**(1,105)**	**(2,817)**
Additions to right-of-use assets	**668**	**2,801**	**3,469**
Assets transferred to right-of-use assets from owned property, plant and equipment	**372**	**–**	**372**
Derecognition of right-of-use assets	**–**	**(233)**	**(233)**
Impairment to right-of-use assets	**–**	**(485)**	**(485)**
Effect of movements in foreign exchange	**192**	**240**	**432**
Balance at 31 March 2023	**6,207**	**6,244**	**12,451**

£0.4 million has been transferred from owned property, plant and equipment into right-of-use assets at net book value. This relates to the Tucson property that was subject to a sale and leaseback arrangement in the period, see note 21. Additions to right-of-use assets in the prior period included £1.410 million in respect of sale and leaseback plant and equipment.

Since the year end, management has made the decision to sell certain of their fixed assets that are no longer needed in the business. A £0.5 million impairment charge has been recognised in the income statement in the year to 31 March 2023 to write the assets down to management's best estimate of fair value less costs of disposal, see note 16 for further information. This impairment related to the notice received from a leading global OEM CTP customer in December 2022 that they would not be proceeding into the production phase of a project, which was deemed by management to be an event that might be an indicator of impairment at 31 March 2023. An impairment review was undertaken, with final settlement providing evidence that impairment existed. The impairment charge has been disclosed as exceptional in the consolidated income statement, see note 9.

ii) Lease liabilities

Lease liabilities have been presented as loans and borrowings (see note 22).

Notes to the consolidated financial statements

continued

for the year ended 31 March 2023

5 Leases continued

Amounts recognised in the income statement

	2023 £000	2022 £000
Interest on lease liabilities	**674**	527
Expenses relating to short-term leases	**17**	13
Depreciation and impairment expense on leases	**3,302**	2,282

Amounts recognised in the consolidated statement of cash flows

	2023 £000	2022 £000
Total cash outflow for leases	**4,795**	3,736

Break options

Some property leases contain break options exercisable by the Group, typically at the five-year anniversary of the lease inception. Where practicable, the Group seeks to include break options in new leases to provide operational flexibility. The Group assesses at lease commencement date whether it is reasonably certain to exercise the break options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

The Group has estimated that the potential future lease payments, should it exercise the break options, would result in a decrease in lease liabilities of £2.3 million (2022: £1.3 million).

Notes to the consolidated financial statements continued

for the year ended 31 March 2023

6 Revenue from contracts with customers

a) Nature of goods and services

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

i) CTP segment:

The CTP segment supplies value-adding engineered solutions for the life science, optical and precision component industries. CTP revenues comprise two typical project types: manufacturing solutions and design and engineering (tooling).

Manufacturing Solutions

The majority of the CTP business is in manufacturing injection moulded product.

Control of manufactured finished goods transfers to customers on delivery. Therefore revenue is recognised at a point in time, on delivery of individual manufactured products to customers.

Design & Engineering

The CTP business also designs, builds and validates injection moulding tools for customers. Depending on the contract, each of these three elements of the design and engineering process may be deemed a distinct performance obligation under IFRS 15, or a single performance obligation, as contracts with customers may include one or more elements of the design and engineering process.

The majority of design and engineering performance obligations are satisfied over time, either on input methods (passage of time or costs to complete) or output methods (milestones achieved). These methods recognise revenue on a basis that is representative of the enhancement of the tool and therefore satisfaction of the performance obligation.

Some CTP contracts include both design and engineering and manufacturing solutions performance obligations. In most cases transaction price is as per the contracted agreement. There is no significant variable consideration.

ii) Aerospace segment:

The Aerospace segment manufactures components for the aerospace industries.

Control of manufactured finished goods transfers to customers on delivery. Therefore revenue is recognised at a point in time, on delivery of individual manufactured products to customers.

b) Disaggregation of revenue

	Continuing operations					
	CTP 2023 £000	CTP 2022 £000	**Aerospace 2023 £000**	Aerospace 2022 £000	**Group total 2023 £000**	Group total 2022 £000
Major products/service lines						
Manufacturing Solutions	**116,737**	98,734	**6,631**	4,707	**123,368**	103,441
Tooling – Design & Engineering	**20,077**	25,135	**–**	–	**20,077**	25,135
	136,814	123,869	**6,631**	4,707	**143,445**	128,576
Timing of revenue recognition						
Products transferred at a point in time	**117,038**	98,872	**6,631**	4,707	**123,669**	103,579
Products and services transferred over time	**19,776**	24,997	**–**	–	**19,776**	24,997
	136,814	123,869	**6,631**	4,707	**143,445**	128,576

Refer to note 3 for information on reliance on major customers.

Notes to the consolidated financial statements continued

for the year ended 31 March 2023

6 Revenue from contracts with customers continued

c) Contract balances

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

	2023 £000	2022 £000
Trade receivables (see note 19)	**16,775**	14,792
Contract assets (see note 18)	**5,763**	7,700
Contract liabilities	**(4,689)**	(6,854)
	17,849	15,638

The contract assets primarily relate to the Group's rights to consideration for work completed but not billed at the reporting date on its design and engineering contracts in the CTP division.

The contract liabilities relate to the advance consideration received from customers before the related revenue has been recognised; this applies to design and engineering contracts in the CTP division.

The following table provides information about revenue recognised in the current period that was included in the contract liability balance at the beginning of the period:

	2023 £000	2022 £000
Revenue recognised	**6,563**	6,138

d) Transaction price allocated to remaining performance obligations

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

The Group is making use of the practical expedient not to include revenue on contracts with an original expected duration of one year or less.

Revenue expected to be recognised

	2024 £000	2025 £000	2026 £000
Design and engineering – CTP	3,020	804	21

e) Significant payment terms

Design and Engineering contracts are invariably billed in several clearly identifiable stages, with standard payment terms being either 30 or 60 days. Typically, these are linked to key milestones being design, build and validate.

Billing of Manufacturing product is typically on completion of particular production batches. Credit terms are usually negotiated between 30 and 60 days. Only pre-specified conditions would confer any right to the customer to return the product for a refund.

Notes to the consolidated financial statements

continued

for the year ended 31 March 2023

7 Operating profit

Operating profit from continuing operations is arrived at as follows:

	2023 £000	2022 £000
Revenue	**143,445**	128,576
Decrease/(increase) in stocks of finished goods and work in progress	**618**	(924)
Raw materials and consumables	**68,230**	59,629
Personnel expenses (see note 8)	**40,709**	34,971
Impairment loss on trade and other receivables, including contract assets	**40**	2
Amortisation of intangible assets	**211**	203
Depreciation of property, plant and equipment	**7,815**	6,825
Auditor's remuneration:		
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**204**	163
Fees payable to the Company's auditor for overruns in respect to the prior year	**50**	–
Fees payable to the Company's auditor and its associates for other services:		
The audit of the Company's subsidiaries, pursuant to legislation	**121**	87
Audit-related assurance services	**39**	35
Total auditor's remuneration	**414**	285
Exceptional items: (see note 9)		
Rationalisation costs	**3,404**	133
Costs arising from cancellation of future supply agreement	**877**	–
Doubtful debt and related inventory provision	**896**	–
Costs in respect to legacy claims	**302**	–
Credit arising on the disposal of surplus properties	**(769)**	–
Past service credit in respect of retirement benefits	**–**	(854)
Total exceptional items	**4,710**	(721)
COVID-19-related US government grant income	**–**	(2,087)
Foreign exchange (gains)/losses	**(919)**	217
Pension scheme administration costs	**1,242**	1,000
Other operating charges[1]	**19,146**	20,272
	142,216	119,672
Operating profit	**1,229**	8,904

1. Other operating charges includes other general costs relating to running the business, for example; power, computer charges, insurance, repairs and maintenance etc.

Notes to the consolidated financial statements continued

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7 Operating profit continued

Exceptional rationalisation costs include £0.2 million (2022: £0.2 million) of pension scheme administration costs and £0.4 million net realisable inventory provisions. Exceptional costs arising from cancellation of a future supply agreement includes £0.3 million of net realisable inventory provision. Exceptional doubtful debt provision amounts to £0.6 million with related net realisable inventory provision of £0.3 million.

8 Personnel expenses

	2023 £000	2022 £000
Wages and salaries	**35,272**	29,941
Social security contributions	**4,097**	3,712
Charge in respect of defined contribution pension plans	**934**	847
Charge in respect of other pension plans	**462**	400
Share-based payments (see note 27)	**(56)**	71
	40,709	34,971
Exceptional credit regarding past service costs (see notes 9 and 24)	**–**	(854)
	40,709	34,117

Redundancy costs of £0.9 million (2022: £nil) and £0.2 million of other personnel costs (2022: £nil) are excluded from the above analysis and are included within exceptional items as set out in note 9.

Directors' remuneration and emoluments, which are included in this analysis, are described in the Directors' remuneration report on pages 76 to 96.

No options vested under the PSP scheme during the year or during the comparative period, therefore there were no gains made by the Directors to disclose. The Group recognised net income of £0.1 million in the consolidated income statement in the year to 31 March 2023 (2022: £0.1 million expense) for share-based payments. As well as adjusting for awards forfeited by leavers, the cumulative charge recognised over the vesting period required adjustment to reflect the recalculated fair value of cash-settled share-based payments, and assessment of likely vesting for awards subject to non-market-based vesting conditions at each reporting date. At 31 March 2023, a portion of the charge previously recognised on outstanding options with a non-market-based vesting condition has been reversed as these are not expected to vest.

The average monthly number of persons employed by the Group during the year was as follows:

	2023 Number of employees	2022 Number of employees
By segment		
Central	**20**	18
CTP	**1,036**	993
Aerospace	**60**	51
	1,116	1,062
By geographic location		
United Kingdom	**341**	332
North America	**368**	384
Rest of world	**407**	346
	1,116	1,062

Notes to the consolidated financial statements

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for the year ended 31 March 2023

9 Exceptional items

	2023 £000	2022 £000
Continuing operations		
Rationalisation costs	**(3,404)**	(133)
Costs arising from cancellation of future supply agreement	**(877)**	–
Doubtful debt and related inventory provision	**(896)**	–
Costs in respect to legacy claims	**(302)**	–
Credit arising on the disposal of surplus properties	**769**	–
Past service credit in respect of retirement benefits	**–**	854
	(4,710)	721
Discontinued operations		
Profit on disposal of discontinued operations	**–**	693
	(4,710)	1,414

Rationalisation costs from continuing operations during the period relate to the restructuring and refinancing of the Group. These include £1.4 million employee and other related costs in respect to restructuring of the Central and CTP divisions, £1.0 million impairment costs relating to manufacturing footprint rationalisation (inventory £0.4 million, fixed assets £0.3 million, intangible assets £0.2 million and an onerous lease provision £0.2 million), £0.7 million legal and professional costs relating to refinancing and £0.2 million exceptional pension scheme administration costs incurred to ensure successful refinancing with the Group's principal bank and Group pension scheme. Prior year costs were £0.2 million exceptional pension scheme administration costs, £0.1 million consultant fees and a £0.1 million credit being the release of accruals in respect to legal and professional costs.

On 30 May 2023, the Group signed a full and final settlement agreement with a leading global OEM customer. Due to a contraction in the end-market demand for COVID-19 testing, they would not be proceeding into the production phase of the project, see note 34. Receiving notice in December 2022 was deemed by management to be an event that might be an indicator of impairment at 31 March 2023. An impairment review was undertaken, with final settlement providing evidence that impairment existed. As a result, the Group has recognised a £0.9 million impairment for: a £0.3 million inventory provision, £0.5 million fixed asset impairment and £0.1 million other costs in the income statement in the year to 31 March 2023. The Group expects to recognise an exceptional gain in the income statement to 31 March 2024 of approximately £0.6 million.

In March 2023, a customer of the CTP division, in the USA, provided notice that it would be ceasing to operate. A £0.6 million provision has been made for the debt outstanding at year end less any amounts expected to be recovered through credit insurance, and a £0.3 million provision for inventory purchased specifically for that customer.

A provision has been recognised in the current year for £0.3 million (2022: £nil), in respect to health-related legacy claims, see note 25.

The credit arising on the disposal of surplus properties in the year is the profit arising on the sale and leaseback arrangement of the CTP manufacturing site at Tucson, Arizona, USA, see note 21.

Notes to the consolidated financial statements continued

for the year ended 31 March 2023

9 Exceptional items continued

The gain in respect of retirement benefits in the prior year is a past service credit for the impact of introducing a Pension Increase Exchange option to members. See note 24 for more information.

The prior year profit on disposal of discontinued operations of £0.7 million was proceeds received in that year from the administrators of Wipac Limited. See note 4.

10 Government support for COVID-19

In April 2020, the Group received a loan under the Paycheck Protection Program, underwritten by the US government in support of COVID-19 for $2.9 million. On 5 May 2021, notice of forgiveness of the loan was received from the Small Business Administration, resulting in its conversion from a loan to a grant and therefore its release to the consolidated income statement.

The credit recognised in respect to the COVID-19-related government grant was presented separately on the face of the consolidated income statement for the year ended 31 March 2022 for clarity.

11 Finance revenue and expense

	2023 £000	2022 £000
Finance revenue comprises:		
Interest receivable on cash and cash deposits	**218**	77
Finance revenue	**218**	77
Finance expense comprises:		
Interest payable on bank loans and overdrafts	**(2,569)**	(1,794)
Lease interest	**(674)**	(527)
Other interest	**(59)**	(18)
Interest on the net defined benefit pension liability	**(665)**	(727)
Finance expense	**(3,967)**	(3,066)

Notes to the consolidated financial statements
continued
for the year ended 31 March 2023

12 Income tax expense
The expense recognised in the consolidated income statement comprises:

	2023 £000	2022 £000
United Kingdom corporation tax:		
Adjustments for prior years	**(18)**	(14)
Overseas taxation:		
Current tax	**(1,462)**	(1,266)
Adjustments for prior years	**110**	(190)
Total current tax net expense	**(1,370)**	(1,470)
Deferred tax expense		
Origination and reversal of temporary differences:		
Deferred tax	**(20)**	629
Adjustments for prior years	**17**	32
Rate change	**(64)**	–
Total deferred tax (charge)/credit – see note 23	**(67)**	661
Total income tax expense recognised in the consolidated income statement	**(1,437)**	(809)

Notes to the consolidated financial statements continued

for the year ended 31 March 2023

12 Income tax expense continued

Reconciliation of tax expense for the year

The Group has reported an effective tax rate for the period of (57.0%) which is significantly below the standard rate of UK corporation tax of 19%. The differences are explained as follows:

	2023 £000	2023 %	2022 £000	2022 %
(Loss)/profit before tax	**(2,520)**		6,608	
Income tax using standard rate of UK corporation tax of 19% (2022: 19%)	**(479)**	**19.0**	1,256	19.0
Expenses not deductible for tax purposes	**128**	**(5.1)**	267	4.0
R&D tax relief	**–**	**–**	(22)	(0.3)
Income not taxable	**(125)**	**5.0**	(603)	(9.1)
Adjustments in respect of overseas tax rates	**155**	**(6.2)**	273	4.1
Derecognition/(recognition) of deferred tax asset previously recognised/unrecognised	**669**	**(26.5)**	(657)	(9.9)
Unprovided deferred tax movement	**982**	**(39.0)**	(412)	(6.2)
Adjustment to current tax in respect of prior periods (UK and overseas)	**(92)**	**3.7**	204	3.1
Adjustments to deferred tax in respect of prior periods (UK and overseas)	**(17)**	**0.7**	(32)	(0.5)
Foreign taxes expensed in the UK	**210**	**(8.3)**	535	8.1
Rate change on deferred tax	**64**	**(2.5)**	–	–
Foreign exchange currency loss	**(58)**	**2.3**	–	–
Total income tax expense	**1,437**	**(57.0)**	809	12.2

Tax on items charged outside of the consolidated income statement:

	2023 £000	2022 £000
Recognised in other comprehensive income:		
Foreign exchange movements	**190**	127
Total income tax charged to other comprehensive income	**190**	127

Notes to the consolidated financial statements
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for the year ended 31 March 2023

13 (Loss)/earnings per share

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

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

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

	2023 £000	2022 £000
(Loss)/profit after tax but before profit on discontinued operations	**(3,957)**	5,106
Profit attributable to non-controlling interests	**–**	–
(Loss)/profit attributable to ordinary shareholders from continuing operations	**(3,957)**	5,106
Profit on discontinued operations, net of tax	**–**	693
(Loss)/profit after tax, attributable to equity holders of the parent	**(3,957)**	5,799

	2023 Shares	2022 Shares
Weighted average number of ordinary shares in the year	**73,419,193**	73,419,193
Effect of share options in issue	**15,974**	324,977
Weighted average number of ordinary shares (diluted) in the year	**73,435,167**	73,744,170

None of the awards outstanding under the performance share plan are expected to vest at 31 March 2023. As these potential ordinary shares are anti dilutive at 31 March 2023, they have not been included in the calculation of dilutive earnings per share.

In addition to the above, the Company also calculates an earnings per share based on underlying profit as the Board believes this provides a more useful comparison of business trends and performance. Underlying profit is defined as profit before impairments, rationalisation costs, one-off retirement benefit effects, exceptional bad debts, business closure costs, litigation costs, other separately disclosed one-off items and the impact of property and business disposals, net of attributable taxes.

Notes to the consolidated financial statements

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for the year ended 31 March 2023

13 Earnings per share continued

The following table reconciles the Group's (loss)/profit to underlying profit used in the numerator in calculating underlying earnings per share:

	2023 £000	2022 £000
(Loss)/profit after tax, attributable to equity holders of the parent	**(3,957)**	5,799
Continuing operations:		
Exceptional – Rationalisation and restructuring costs, net of tax	**3,070**	133
Exceptional – Costs arising from cancellation of future supply agreement, net of tax	**752**	–
Exceptional – Doubtful debt and related inventory provision, net of tax	**673**	–
Exceptional – Costs in respect to legacy claims, net of tax	**302**	–
Exceptional – Credit arising on the disposal of surplus properties, net of tax	**(578)**	–
Exceptional – Gain in respect of retirement benefits, net of tax	**–**	(854)
COVID-19-related US government grant income, net of tax	**–**	(2,087)
Discontinued operations:		
Exceptional – Gain on disposal of discontinued operations, net of tax	**–**	(693)
Underlying profit attributable to equity holders of the parent	**262**	2,298
COVID-19-related US government grant income, net of tax	**–**	2,087
Profit after tax but before exceptional items, attributable to equity holders of the parent	**262**	4,385
Underlying operating profit – continuing operations	**5,939**	6,096
Finance revenue – continuing operations	**218**	77
Finance expense – continuing operations	**(3,967)**	(3,066)
Income tax expense – continuing operations	**(1,928)**	(809)
Underlying profit attributable to equity holders of the parent – continuing operations	**262**	2,298
COVID-19-related US government grant income, net of tax	**–**	2,087
Profit after tax but before exceptional items – continuing operations	**262**	4,385

Notes to the consolidated financial statements

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for the year ended 31 March 2023

13 Earnings per share continued

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

	2023 Pence	2022 Pence
Basic (loss)/earnings per share – continuing operations	**(5.4)**	7.0
Basic (loss)/earnings per share – discontinued operations	**–**	0.9
Basic (loss)/earnings per share	**(5.4)**	7.9
Diluted (loss)/earnings per share – continuing operations	**(5.4)**	6.9
Diluted (loss)/earnings per share – discontinued operations	**–**	0.9
Diluted (loss)/earnings per share	**(5.4)**	7.9
Underlying earnings per share – basic – continuing operations	**0.4**	3.1
Underlying earnings per share – basic – discontinued operations	**–**	–
Underlying earnings per share – basic	**0.4**	3.1
Underlying earnings per share – diluted – continuing operations	**0.4**	3.1
Underlying earnings per share – diluted – discontinued operations	**–**	–
Underlying earnings per share – diluted	**0.4**	3.1
Earnings per share before exceptional items – basic – continuing operations	**0.4**	6.0
Earnings per share before exceptional items – basic – discontinued operations	**–**	–
Earnings per share before exceptional items – basic	**0.4**	6.0
Earnings per share before exceptional items – diluted – continuing operations	**0.4**	6.0
Earnings per share before exceptional items – diluted – discontinued operations	**–**	–
Earnings per share before exceptional items – diluted	**0.4**	6.0

14 Dividends paid and proposed

The Directors are not proposing a final dividend for the year ended 31 March 2023 (2022: £nil). Under the terms of the amended and restated bank facilities agreement, the Group is not permitted to make a dividend payment to shareholders up to the period ending June 2025.

Notes to the consolidated financial statements

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for the year ended 31 March 2023

15 Intangible assets

	Goodwill £000	Patents and development costs £000	Customer-related intangibles £000	Computer software £000	Total £000
Cost					
Balance at 31 March 2021	22,408	16,734	527	1,741	41,410
Additions	–	–	–	135	135
Effect of movements in foreign exchange	686	–	26	23	735
Balance at 31 March 2022	23,094	16,734	553	1,899	42,280
Additions	**–**	**68**	**–**	**36**	**104**
Disposals	**–**	**–**	**–**	**(14)**	**(14)**
Effect of movements in foreign exchange	**1,005**	**–**	**35**	**31**	**1,071**
Balance at 31 March 2023	**24,099**	**16,802**	**588**	**1,952**	**43,441**
Amortisation					
Balance at 31 March 2021	1,343	16,734	235	1,250	19,562
Amortisation for the year	–	–	67	136	203
Effect of movements in foreign exchange	(213)	–	–	14	(199)
Balance at 31 March 2022	1,130	16,734	302	1,400	19,566
Amortisation for the year	**–**	**6**	**61**	**144**	**211**
Impairment	**–**	**–**	**208**	**–**	**208**
Effect of movements in foreign exchange	**(41)**	**–**	**17**	**17**	**(7)**
Balance at 31 March 2023	**1,089**	**16,740**	**588**	**1,561**	**19,978**
Carrying amounts					
At 1 April 2021	21,065	–	292	491	21,848
At 31 March 2022	21,964	–	251	499	22,714
At 31 March 2023	**23,010**	**62**	**–**	**391**	**23,463**

The Group has incurred research and development costs of £0.2 million (2022: £0.2 million) which have been included within operating expenses in the consolidated income statement.

The decision by the Directors of the Group to proceed with a plan of rationalisation of the USA manufacturing footprint led to an impairment review of certain of the site assets. A customer-related intangible asset which was recognised on acquisition of one of the USA sites was reviewed as part of this exercise, and as the Group now has minimal trading with the customers to which it related, the carrying amount has been fully impaired and recognised as an exceptional item, see note 9.

Notes to the consolidated financial statements

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for the year ended 31 March 2023

15 Intangible assets continued

Impairment tests for cash generating units containing goodwill

Goodwill acquired in a business combination is allocated at acquisition to the cash generating units ("CGUs") that are expected to benefit from that business combination. The carrying amount of goodwill is allocated to the Group's principal CGUs, being the operating segments described in the operating segment descriptions in note 3.

The carrying value of goodwill at 31 March 2023 and 31 March 2022 is allocated wholly to the CTP cash generating unit as follows:

	2023 £000	2022 £000
CTP	**23,010**	21,964

At 31 March 2023, the recoverable amount of the CTP cash generating unit was determined on a calculation of value in use, being the higher of that and fair value less costs of disposal ("FVLCD"). The results of each produced the same answer, that there is no impairment of goodwill.

The value in use calculations use cash flow projections based upon financial budgets approved by management covering a three-year period. Cash flows beyond the three-year period are extrapolated using estimated growth rates of between 2.0% and 4.1% (2022: 2.3% and 4.2%) depending upon the market served.

The cash flows were discounted at pre-tax rates in the range 9.3%-10.4% (2022: 6.1%-8.7%). These rates are calculated and reviewed annually and are based on the Group's weighted average cost of capital. Changes in income and expenditure are based on expectations of future changes in the market. Sensitivity testing of the recoverable amount to reasonably possible changes in key assumptions has been performed, including changes in the discount rate and changes in forecast cash flows.

All other assumptions unchanged, a 5.5% (2022: 6.6%) increase in the discount rate, increasing the range to 14.8%-15.9% (2022: 12.7%-15.3%), or a 28.8% (2022: 45.0%) decrease in underlying EBIT would reduce the headroom on the CTP CGU to £nil. Should the discount rate increase further than this or the profitability decrease further, then an impairment of the goodwill would be likely.

Notes to the consolidated financial statements

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for the year ended 31 March 2023

16 Property, plant and equipment

	Land and buildings £000	Plant and equipment £000	Total £000
Cost			
Balance at 31 March 2021	36,446	67,659	104,105
Additions	5,792	3,916	9,708
Disposals	(3)	(1,087)	(1,090)
Reclassification to assets held for sale	(608)	–	(608)
Effect of movements in foreign exchange	1,296	1,639	2,935
Balance at 31 March 2022	42,923	72,127	115,050
Additions	**1,662**	**4,148**	**5,810**
Disposals	**–**	**(1,483)**	**(1,483)**
Reclassification to assets held for sale	**(153)**	**–**	**(153)**
Effect of movements in foreign exchange	**1,709**	**1,840**	**3,549**
Balance at 31 March 2023	**46,141**	**76,632**	**122,773**
Depreciation and impairment losses			
Balance at 31 March 2021	12,848	48,039	60,887
Depreciation charge for the year	3,338	3,487	6,825
Disposals	(2)	(1,068)	(1,070)
Reclassification to assets held for sale	(342)	–	(342)
Effect of movements in foreign exchange	621	1,165	1,786
Balance at 31 March 2022	16,463	51,623	68,086
Depreciation charge for the year	**3,596**	**4,219**	**7,815**
Disposals	**–**	**(999)**	**(999)**
Reclassification to assets held for sale	**(89)**	**–**	**(89)**
Impairment	**–**	**783**	**783**
Effect of movements in foreign exchange	**704**	**1,152**	**1,856**
Balance at 31 March 2023	**20,674**	**56,778**	**77,452**
Carrying amounts			
At 1 April 2021	23,598	19,620	43,218
At 31 March 2022	26,460	20,504	46,964
At 31 March 2023	**25,467**	**19,854**	**45,321**

Notes to the consolidated financial statements continued

for the year ended 31 March 2023

16 Property, plant and equipment continued

At 31 March 2023, properties with a carrying amount of £2.6 million were subject to a registered charge in favour of the Group pension scheme (2022: £2.7 million) capped at £5.1 million.

Property, plant and equipment includes right-of-use assets as set out in note 5.

A further £0.1 million net carrying value was reclassified from land and buildings to assets held for sale as set out in note 21 (2022: £0.3 million).

Receiving notice from a leading global OEM CTP customer in December 2022 that they would not be proceeding into the production phase of a project was deemed by management to be an event that might be an indicator of impairment at 31 March 2023. An impairment review was undertaken, with final settlement providing evidence that impairment existed. The Directors have undertaken an exercise to determine the recoverable amount of assets that were earmarked for use on this project where recoverable amount is the higher of value in use and fair value less costs of disposal. Whilst the significant proportion of fixed assets at 31 March 2023 will be repurposed within the business, there are a number of machines which management has decided to sell. As a result, an impairment charge of £0.485 million has been recognised in the year ended 31 March 2023 and has been disclosed as an exceptional item in the consolidated income statement, see note 9, being the difference between net book value at year end and fair value less costs of disposal.

The decision by the Directors of the Group to proceed with a plan of rationalisation of the CTP USA manufacturing footprint led to an impairment review of the site's assets. Whilst a number of the assets will be repurposed within the Group and are supported by the value in use calculations of the CTP division, there are a number of assets that have been identified that will be disposed of. These assets have been impaired to fair value less costs to dispose, resulting in an impairment charge of £0.299 million, recognised as an exceptional item, see note 9. Refer to note 15 for details of cash flows and assumptions used in value in use calculations.

FVLCD valuation uses an estimate of the value which would be expected to be received from a third party in a sale of the asset, net of estimated sale costs. This valuation is a level 3 measurement which is based on inputs which are normally unobservable to market participants, including offers received and management's experience of selling similar assets.

17 Inventories

	2023 £000	2022 £000
Raw materials and consumables	**9,213**	9,460
Work in progress	**620**	329
Finished goods	**5,370**	7,198
	15,203	16,987

The value of inventories is stated after impairment for obsolescence and write downs to net realisable value of £1.843 million (2022: £0.858 million). In the year to 31 March 2023, the Group has recognised £0.919 million of the total £1.8 million net realisable value provision within exceptional items, see note 9.

18 Contract assets

	2023 £000	2022 £000
Contract assets – see note 6	**5,763**	7,700

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all contract assets.

To measure the expected credit losses, contract assets have been grouped based on shared credit risk characteristics. The contract assets relate to unbilled work in progress and are therefore not past due. The Group has reviewed the risk characteristics and considers them to be the same as the trade receivables not past due for the same types of contracts. The Group has concluded that the expected loss rates for the contract assets would be clearly immaterial (2022: immaterial).

Against an opening contract asset balance of £7.7 million at 31 March 2022, invoicing of £7.5 million during the year to 31 March 2023 indicates that the contract asset has been largely recovered during the period.

Notes to the consolidated financial statements continued

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19 Trade and other receivables

	2023 £000	2022 £000
Amounts due within one year		
Trade receivables	**17,512**	14,836
Less impairment provisions	**(737)**	(44)
	16,775	14,792
Prepayments	**3,010**	2,454
Other debtors	**1,598**	2,456
Trade and other receivables – due within one year	**21,383**	19,702
Amounts due after one year		
Other debtors and prepayments	**–**	115
Trade and other receivables – due after one year	**–**	115

The Group applies the IFRS 9 simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for all trade receivables.

The lifetime expected loss allowance takes into account historical credit loss and impairment experience for the ongoing customer base as well as recent credit intelligence for key customer accounts, which in turn takes into account the impacts of the economic climate on credit risk.

A customer of the CTP division provided notice during the year to 31 March 2023 that it would be ceasing to operate and, due to its size, a provision has been recognised and disclosed as an exceptional cost of £0.6 million in the consolidated income statement, see note 9.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. On that basis, the loss allowance as at 31 March 2023 was determined as follows for trade receivables:

	2023			2022		
	Gross carrying amount £000	**Loss allowance £000**	**Expected loss rate %**	Gross carrying amount £000	Loss allowance £000	Expected loss rate %
Not past due	**14,614**	**–**	**0.0%**	13,626	–	0.0%
Past due 0 – 30 days	**1,730**	**–**	**0.0%**	1,090	–	0.0%
Past due 31 – 60 days	**497**	**218**	**43.9%**	55	–	0.0%
Past due 61 – 120 days	**574**	**422**	**73.5%**	21	–	0.0%
More than 120 days	**97**	**97**	**100.0%**	44	44	100.0%
	17,512	**737**	**4.2%**	14,836	44	0.3%

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for the year ended 31 March 2023

19 Trade and other receivables continued

The movement in the allowance for impairment in respect of trade receivables and contract assets during the period was as follows:

	2023 £000	2022 £000
Balance at 1 April	**44**	16
Amounts written off	**(149)**	(2)
Net measurement of loss allowance	**842**	30
Balance at 31 March	**737**	44

20 Cash and cash deposits

	2023 £000	2022 £000
Cash at bank and in hand	**10,354**	12,347

At 31 March 2023, Carclo plc's overdraft of £6.5 million (2022: £2.4 million) has been recognised within cash and cash deposits when consolidated due to a right of set-off under a UK net overdraft arrangement.

At 31 March 2023 there is £0.1 million cash on deposit with a maturity of less than 90 days from 31 March 2023.

21 Non-current assets classified as held for sale

	2023 £000	2022 £000
Land and buildings held for sale at 1 April	**266**	–
Additions	**64**	266
Effect of movements in foreign exchange	**30**	–
Disposals	**(360)**	–
Net assets held for sale at 31 March	**–**	266

On 11 July 2022, the Group finalised a sale and leaseback arrangement of a CTP manufacturing site at Tucson, Arizona, USA for agreed consideration of $2.95 million less costs of $0.155 million (£2.351 million net). A lease term of eight years and four months was agreed and grants the Group the right to cancel any time after 1 October 2025, provided twelve months' notice is given. At 31 March 2023, there is no reasonable certainty that the Group will exercise the break clause.

The total net book value of the property amounted to £0.7 million at the date of disposal, however only the proportion relating to the disposed useful economic life was classified as held for sale (£0.4 million) prior to disposal. The balance of £0.4 million that relates to the right-of-use asset remained in owned property, plant and equipment until completion, when it was transferred into right-of-use assets. The profit on the portion relating to the disposed useful economic life amounted to £0.8 million and has been classified as exceptional income in the consolidated income statement, see note 9.

Notes to the consolidated financial statements

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for the year ended 31 March 2023

22 Loans and borrowings

	2023 £000	2022 £000
Current		
Bank loans:		
Term loan	**1,224**	1,331
Lease liabilities:		
Land and buildings	**2,243**	988
Plant and equipment	**1,464**	559
Other loans:		
Other	**115**	70
	5,046	2,948
Non-current		
Bank loans repayable between one and two years:		
Term loan	**2,049**	28,929
Revolving credit facility	**–**	3,500
Bank loans repayable between two and five years:		
Term loan	**25,677**	–
Revolving credit facility	**3,500**	–
Lease liabilities:		
Land and buildings	**4,941**	5,957
Plant and equipment	**3,222**	3,366
Other loans:		
Other loans repayable between one and two years	**164**	43
Other loans repayable between two and five years	**115**	9
	39,668	41,804
Total loans and borrowings	**44,714**	44,752

The UK Group companies are part of a multi-currency net overdraft facility with a £nil net limit and a £12.5 million gross limit. The overdrafts bear interest at between 2.0% and 4.5% above prevailing UK bank base rates. At 31 March 2023, Carclo plc's overdraft of £6.5 million (2022: £2.4 million) has been recognised within cash and cash deposits when consolidated due to a right of set-off within the net overdraft facility.

Notes to the consolidated financial statements continued

for the year ended 31 March 2023

22 Loans and borrowings continued

On 2 September 2022, the Group successfully refinanced with the Company's lending bank, concluding its first amendment and restatement agreement relating to the multi-currency term and revolving facilities agreement dated 14 August 2020. The debt facilities available to the Group at 31 March 2023 comprise a term loan of £29.3 million (31 March 2022: £30.3 million), of which £0.7 million will be amortised by 30 September 2023, a further £0.7 million by 31 March 2024, £2.2 million by 31 March 2025 and a final repayment of £0.6 million in May 2025 before the balance becomes payable by the termination date, 30 June 2025.

At 31 March 2023, the term loans are denominated as follows: sterling 14.2 million, US dollar 13.3 million and euro 4.9 million. The facility also includes a £3.5 million (2022: £3.5 million) revolving credit facility, denominated in sterling, maturing 30 June 2025.

An arrangement fee of £0.5 million became payable upon completion of the September 2022 refinancing and is being settled quarterly in equal instalments by the Company; £0.3 million remains payable at 31 March 2023. The £0.5 million arrangement fee has been deducted from the carrying value of the term loan and is being amortised over a 34-month period; £0.1 million was amortised in the period ending 31 March 2023.

Whilst Carclo plc is required, per the agreement, to prepay borrowings of amounts equal to excess cash arising from disposal, intercompany and insurance proceeds, the proceeds received from the sale and leaseback of its Tucson property were instead consented to by the bank for reinvestment in capital growth rather than prepayment. During the prior year to 31 March 2022, proceeds amounting to £0.6 million were received from the administrators of Wipac Ltd by HSBC and were used to prepay the term loan.

Bank loans incur interest at between 2.5% and 4.5% above prevailing bank reference rates.

The bank facilities are subject to four covenant tests. Following a review of the Group's three-year plan up to March 2026 and in support of the Group's renewed business strategy, the bank agreed in writing to the Group's request to amend the interest cover covenant to June 2025 and to an adjustment to the net debt to underlying EBITDA covenant to December 2023. The quarterly covenants to be tested are:

1. underlying interest cover;
2. net debt to underlying EBITDA;
3. core subsidiary underlying EBITA; and
4. core subsidiary revenue.

Core subsidiaries are defined as Carclo Technical Plastics Ltd, Bruntons Aero Products Ltd, Carclo Technical Plastics (Brno) s.r.o, CTP Carrera Inc and Jacottet Industrie SAS, with CTP Taicang Co. Ltd and Carclo Technical Plastics Pvt Co Ltd being treated as non-core for the purposes of these covenants.

In addition, the pension scheme has the benefit of a fifth covenant to be tested each year up to and including 2023. The test requires any shortfall of pension deficit recovery contributions when measured against Pension Protection Fund priority drift (which is a measure of the increase in the UK Pension Protection Fund's potential exposure to the Group's pension scheme liabilities), to be met by a combination of cash payments to the scheme, plus a notional (non-cash) proportion of the increase in the underlying value of the CTP and Aerospace segments based on an EBITDA multiple for those businesses which is determined annually. This test will be completed on these audited financial statements and management expect this covenant to be met.

Following a review of forecasts for the remainder of 2022/23 and the Budget for 2023/24 the bank agreed adjustments to the Group's interest cover covenant for both the December 2022 and March 2023 testing points.

The Group has complied with the financial covenants of its borrowing facilities during the financial reporting period.

Under the terms of the first amendment and restatement agreement, the Group is not permitted to make a dividend payment to the shareholders of Carclo plc up to the period ending in June 2025.

Bank loans include £32.5 million (2022: £33.8 million) secured on the assets of the Group. The bank loan facilities are secured by guarantees from certain Group companies and by fixed and floating charges over certain of the assets of a number of the Group's companies.

Security is granted by certain Group companies to the bank such that at 31 March 2023 the gross value of the assets secured, which includes applicable intra-group balances, goodwill and investments in subsidiaries at net book value in the relevant component companies' accounts, but which eliminate in the Group upon consolidation, amounted to £235.8 million (2022: £248.2 million). Excluding the assets which eliminate in the Group upon consolidation, the value of the security was £32.6 million (2022: £31.1 million).

Notes to the consolidated financial statements

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for the year ended 31 March 2023

22 Loans and borrowings continued

Reconciliation of movements of liabilities to cash flows arising from financing activities

	Term loan £000	Government COVID-19 support loans £000	Revolving credit facility £000	Lease liabilities £000	Other loans £000	Total £000
Balance at 31 March 2021	31,812	2,104	2,000	7,055	110	43,081
Changes from financing cash flows						
Drawings on new facilities	–	–	1,500	–	75	1,575
Repayment of borrowings	(2,218)	–	–	(3,195)	(64)	(5,477)
	(2,218)	–	1,500	(3,195)	11	(3,902)
Effect of changes in foreign exchange rates	440	(17)	–	192	1	616
Liability-related other changes						
Drawings on new facilities	–	–	–	6,818	–	6,818
Conversion of loan to a grant (see note 10)	–	(2,087)	–	–	–	(2,087)
Interest expense	226	–	–	–	–	226
	226	(2,087)	–	6,818	–	4,957
Equity-related other changes	–	–	–	–	–	–
Balance at 31 March 2022	30,260	–	3,500	10,870	122	44,752
Changes from financing cash flows						
Drawings on new facilities	**–**	**–**	**–**	**–**	**359**	**359**
Transaction costs associated with the issue of debt	**(500)**	**–**	**–**	**–**	**–**	**(500)**
Repayment of borrowings	**(1,800)**	**–**	**–**	**(4,328)**	**(102)**	**(6,230)**
	(2,300)	**–**	**–**	**(4,328)**	**257**	**(6,371)**
Effect of changes in foreign exchange rates	**818**	**–**	**–**	**373**	**15**	**1,206**
Liability-related other changes						
Drawings on new facilities	**–**	**–**	**–**	**4,955**	**–**	**4,955**
Interest expense – presented within exceptional items	**69**	**–**	**–**	**–**	**–**	**69**
Interest expense – presented within finance expense	**103**	**–**	**–**	**–**	**–**	**103**
	172	**–**	**–**	**4,955**	**–**	**5,127**
Equity-related other changes	**–**	**–**	**–**	**–**	**–**	**–**
Balance at 31 March 2023	**28,950**	**–**	**3,500**	**11,870**	**394**	**44,714**

Notes to the consolidated financial statements continued

for the year ended 31 March 2023

23 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	2023 £000	2022 £000
Assets:		
Property, plant and equipment	**282**	283
Short-term timing differences	**727**	250
Tax losses	**176**	870
Deferred tax assets	**1,185**	1,403
Liabilities:		
Intangible assets	**(2,504)**	(2,622)
Property, plant and equipment	**(1,991)**	(1,546)
Short-term timing differences	**(74)**	(317)
Foreign tax on undistributed foreign profits	**(348)**	(393)
Deferred tax liabilities	**(4,917)**	(4,878)
Net deferred tax liability	**(3,732)**	(3,475)

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	2023 £000	2022 £000
Tax losses – trading	**5,531**	3,770
Tax losses – capital	**52**	50
Tax losses – non-trading	**1,658**	1,494
Property, plant and equipment	**2,514**	2,185
Short-term timing differences	**9**	12
Employee benefits	**8,624**	6,333
	18,388	13,844

Deferred tax assets have not been recognised on the balance sheet to the extent that the underlying timing differences are not expected to reverse. The nature of the tax regimes in certain regions in which Carclo operates are such that tax losses may arise even though the business is profitable. This situation is expected to continue in the medium term. A deferred tax charge of £0.7 million has been booked in the income statement at 31 March 2023 as, following rationalisation, latest approved business plans and profitability levels therein for the UK Group cannot support an asset in the medium term, hence the asset on trading losses has been derecognised.

Notes to the consolidated financial statements continued

for the year ended 31 March 2023

23 Deferred tax assets and liabilities continued

Unrecognised deferred tax assets continued

Capital losses will be recognised at the point when a transaction gives rise to an offsettable capital gain; this was not the case at 31 March 2023. Similarly, non-trading losses will only be utilised against future non-trading profits. No such non-trading profits are foreseen at 31 March 2023.

£0.1 million of the tax losses recognised at 31 March 2023 (2022: £0.2 million) are time restricted to five years, the remainder are available to carry forward without time restriction.

At 31 March 2023, £0.3 million of deferred tax liabilities were recognised for taxes that would be deductible on the unremitted earnings of the Group's overseas subsidiary undertakings (2022: £0.4 million). As the Group policy is to continually reinvest in those businesses, provision has not been made against unremitted earnings that are not planned to be remitted. If all earnings were remitted it is estimated that £0.4 million of additional tax would be payable (2022: £0.4 million).

Deferred tax assets and liabilities at 31 March 2023 have been calculated based on the rates substantively enacted at the balance sheet date.

A change to the main UK corporation tax rate, set out in the Finance Bill 2021, was substantively enacted on 24 May 2021 with the main rate of corporation tax to become 25% from 1 April 2023. Deferred tax on future UK balances will be calculated based on this rate. Overseas taxes are calculated at the rates prevailing in the respective jurisdictions.

Reconciliation of movement in net recognised deferred tax liabilities

	Balance as at 1 April 22 £000	**Recognised in income £000**	**Recognised in equity £000**	**Balance as at 31 March 23 £000**
Property, plant and equipment	(1,263)	**(359)**	**(87)**	**(1,709)**
Intangible assets	(2,622)	**202**	**(84)**	**(2,504)**
Short-term timing differences	(67)	**736**	**(16)**	**653**
Tax losses	870	**(691)**	**(3)**	**176**
Foreign tax on undistributed foreign profits	(393)	**45**	**–**	**(348)**
	(3,475)	**(67)**	**(190)**	**(3,732)**

	Balance as at 1 April 21 £000	Recognised in income £000	Recognised in equity £000	Balance as at 31 March 22 £000
Property, plant and equipment	(1,400)	203	(66)	(1,263)
Intangible assets	(2,516)	(37)	(69)	(2,622)
Short-term timing differences	(32)	(33)	(2)	(67)
Tax losses	132	728	10	870
Foreign tax on undistributed foreign profits	(193)	(200)	–	(393)
	(4,009)	661	(127)	(3,475)

Notes to the consolidated financial statements

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for the year ended 31 March 2023

24 Retirement benefit obligations

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

In the UK, Carclo plc sponsors the Carclo Group Pension Scheme (the "Scheme"), a funded defined benefit pension scheme which provides defined benefits for some of its members. This is a legally separate, trustee-administered fund, holding the Scheme's assets to meet long-term pension liabilities for some 2,561 current and past employees as at 31 March 2023.

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

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

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

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

A full actuarial valuation was carried out as at 31 March 2021 in accordance with the scheme funding requirements of the Pensions Act 2004. The funding of the Scheme is agreed between the Group and the trustees in line with those requirements. These, in particular, require the surplus or deficit to be calculated using prudent, as opposed to best estimate, actuarial assumptions. The 31 March 2021 actuarial valuation showed a deficit of £82.8 million. Under the recovery plan agreed with the trustees following the 2021 valuation, the Group agreed that it would aim to eliminate the deficit, over a period of 18 years and 7 months starting from the valuation date and continuing until 31 October 2039, by the payment of annual contributions combined with the assumed asset returns in excess of gilt yields. Contributions paid in respect of the year to 31 March 2022 amounted to £3.9 million, £3.85 million in respect of the year to 31 March 2023 and are agreed as £3.5 million annually thereafter, plus additional contributions of 25% of any surplus of 2023/24 underlying EBITDA over £18.0 million payable from 30 June 2024 to 31 May 2025, extending to 26% of any 2024/25 surplus payable from 30 June 2025 to 31 May 2026. These contributions include an allowance in respect of the expenses of running the Scheme and the Pension Protection Fund ("PPF") levy of £1.2 million in the year to 31 March 2022, £0.85 million in years ending 31 March 2023, 2024 and 2025 and £0.6 million in the year to 31 March 2026 and beyond.

At each triennial valuation, the schedule of contributions is reviewed and reconsidered between the employer and the trustees; the next review being no later than by 31 July 2025, after the results of the 31 March 2024 triennial valuation are known.

On 14 August 2020, additional security was granted by certain Group companies to the Scheme trustees such that at 31 March 2023 the gross value of the assets secured, which includes applicable intra-group balances, goodwill and investments in subsidiaries at net book value in the relevant component companies' accounts, but which eliminate in the Group upon consolidation, amounted to £240.9 million (2022: £248.2 million). Excluding the assets which eliminate in the Group upon consolidation, the value of the security was £37.7 million (2022: £36.3 million).

For the purposes of IAS 19, the results of the actuarial valuation as at 31 March 2021, which was carried out by a qualified independent actuary, have been updated on an approximate basis to 31 March 2023. There have been no changes in the valuation methodology adopted for this period's disclosures compared to the previous period's disclosures.

The Scheme exposes the Group to actuarial risks and the key risks are set out in the table presented on page 158. In each instance these risks would detrimentally impact the Group's statement of financial position and may give rise to increased interest costs in the Group income statement. The trustees could require higher cash contributions or additional security from the Group.

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

Notes to the consolidated financial statements

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for the year ended 31 March 2023

24 Retirement benefit obligations continued

Risk	Description	Mitigation
Investment risk	Weaker than expected investment returns result in a worsening in the Scheme's funding position.	The trustees continually monitor investment risk and performance and have established an investment sub-committee which includes a Group representative, meets regularly and is advised by professional investment advisors. A number of the investment managers operate tactical investment management of the plan assets. The Scheme currently invests approximately 69% of its asset value in liability-driven investments, 28% in a portfolio of diversified growth funds and 3% in cash and liquidity funds. The objective of the growth portfolio is that in combination, the matching credit, liability-driven investments and cash components generate sufficient return to meet the overall portfolio return objective.
Interest rate risk	A decrease in corporate bond yields increases the present value of the IAS 19 defined benefit obligations. A decrease in gilt yields results in a worsening in the Scheme's funding position.	The trustees' investment strategy includes investing in liability-driven investments and bonds whose values increase with decreases in interest rates. Approximately 105% of the Scheme's funded liabilities are currently hedged against interest rates using liability-driven investments. It should be noted that the Scheme hedges interest rate risk on a statutory and long-term funding basis (gilts) whereas AA corporate bonds are implicit in the IAS 19 discount rate and so there is some mismatching risk to the Group, should yields on gilts and corporate bonds diverge.
Inflation risk	An increase in inflation results in higher benefit increases for members which in turn increases the Scheme's liabilities.	The trustees' investment strategy includes investing in liability-driven investments which will move with inflation expectations with approximately 110% of the Scheme's inflation-linked liabilities being hedged on a funded basis. The growth assets held are expected to provide protection over inflation in the long term.
Mortality risk	An increase in life expectancy leads to benefits being payable for a longer period which results in an increase in the Scheme's liabilities.	The trustees' actuary provides regular updates on mortality, based on scheme experience, and the assumption continues to be reviewed.

The amounts recognised in the statement of financial position in respect of the defined benefit scheme were as follows:

	2023 **£000**	2022 £000
Present value of funded obligations	**(134,091)**	(181,759)
Fair value of scheme assets	**99,598**	155,780
Recognised liability for defined benefit obligations	**(34,493)**	(25,979)

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

Notes to the consolidated financial statements continued

for the year ended 31 March 2023

24 Retirement benefit obligations continued

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

All actuarial remeasurement gains and losses will be recognised in the year in which they occur in other comprehensive income.

The cumulative remeasurement net loss reported in the statement of comprehensive income since 1 April 2004 is £51.433 million.

IFRIC 14 has no effect on the figures disclosed because the Company has an unconditional right to a refund under the resulting trust principle.

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

	2023 £000	2022 £000
Net liability for defined benefit obligations at the start of the year	**(25,979)**	(37,275)
Contributions paid	**4,142**	3,900
Net expense recognised in the consolidated income statement (see below)	**(2,079)**	(1,084)
Remeasurement (losses)/gains recognised in other comprehensive income	**(10,577)**	8,480
Net liability for defined benefit obligations at the end of the year	**(34,493)**	(25,979)

Movements in the present value of defined benefit obligations

	2023 £000	2022 £000
Defined benefit obligation at the start of the year	**181,759**	204,654
Interest expense	**4,750**	3,986
Actuarial loss due to scheme experience	**4,897**	–
Actuarial gains due to changes in demographic assumptions	**(7,539)**	(1,767)
Actuarial gains due to changes in financial assumptions	**(38,032)**	(13,476)
Benefits paid	**(11,744)**	(10,784)
Past service credit (see note 9)	**–**	(854)
Defined benefit obligation at the end of the year	**134,091**	181,759

There have been no plan amendments, curtailments or settlements during the period.

In the prior year, the scheme introduced a Pension Increase Exchange ("PIE"). A Deed of Amendment, signed on 16 March 2022, created the right for deferred members to take PIE at retirement. It also created the right for members to receive PIE on terms such that 20% of the PIE value is retained within the Scheme. Based upon the assumption that 40% of members will opt for PIE at retirement, this resulted in a reduction in the value of accrued liabilities and as a result a past service credit was recognised in the income statement of £0.9 million in that year, presented within exceptional items.

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

Notes to the consolidated financial statements

continued

for the year ended 31 March 2023

24 Retirement benefit obligations continued

Movements in the present value of defined benefit obligations continued

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

In the year to 31 March 2020, the trustees commissioned scheme-specific calculations to determine the likely impact of the ruling on the Scheme. An allowance for the impact of GMP equalisation was included within the accounting figures for that year, increasing liabilities by 1.68%, and a resulting past service cost of £3.6 million was recognised in the income statement at that time. The Scheme has not yet implemented GMP equalisation and therefore the allowance made in 2019 has been maintained for accounting disclosures.

On 20 November 2020, the High Court issued a supplementary ruling in the Lloyds Bank GMP equalisation case with respect to members that have transferred out of their scheme prior to the ruling. The results mean that trustees are obliged to make top-up payments that reflect equalisation benefits and to make top-up payments where this was not the case in the past. Also, a defined benefit scheme that received a transfer is concurrently obliged to provide equalised benefits in respect to the transfer payments and, finally, there were no exclusions on the grounds of discharge forms, CETV legislation, forfeiture provisions or the Limitation Act 1980.

The impact of this ruling was estimated to cost £0.2 million (approximately 0.1% of liabilities). This additional service cost was recognised through the income statement as a past service cost in the year ending 31 March 2021 and was presented within exceptional items and therefore the impact of the ruling is allowed for in the figures presented at 31 March 2023.

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

	2023 %	2022 %
Active	–	–
Deferred	**29**	35
Pensioners	**71**	65
	100	100

Movements in the fair value of Scheme assets

	2023 £000	2022 £000
Fair value of Scheme assets at the start of the year	**155,780**	167,379
Interest income	**4,085**	3,259
Loss on Scheme assets excluding interest income	**(51,251)**	(6,763)
Contributions by employer	**4,142**	3,900
Benefits paid	**(11,744)**	(10,784)
Expenses paid	**(1,414)**	(1,211)
Fair value of Scheme assets at the end of the year	**99,598**	155,780
Actual loss on Scheme assets	**(47,166)**	(3,504)

Notes to the consolidated financial statements continued

for the year ended 31 March 2023

24 Retirement benefit obligations continued

Movements in the fair value of Scheme assets continued

The fair value of Scheme asset investments was as follows:

	2023 £000	2022 £000
Diversified growth funds	**28,463**	65,234
Bonds and liability-driven investment funds	**68,365**	87,931
Cash and liquidity funds	**2,770**	2,615
Total assets	**99,598**	155,780

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

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

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

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

A proportion of the Scheme's assets is invested in the BMO LDI Nominal Dynamic LDI Fund and in the BMO LDI Real Dynamic LDI Fund which provides a degree of asset liability matching.

The net expense/(gain) recognised in the consolidated income statement was as follows:

	2023 £000	2022 £000
Past service credit	**–**	(854)
Net interest on the net defined benefit liability	**665**	727
Scheme administration expenses	**1,414**	1,211
	2,079	1,084

The net expense/(gain) is recognised in the following line items in the consolidated income statement:

	2023 £000	2022 £000
Charged to operating profit	**1,242**	1,000
Charged/(credited) to exceptional items	**172**	(643)
Other finance revenue and expense – net interest on the net defined benefit liability	**665**	727
	2,079	1,084

Notes to the consolidated financial statements continued

for the year ended 31 March 2023

24 Retirement benefit obligations continued

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

	2023	2022
Discount rate at 31 March	**4.90%**	2.70%
Future salary increases	**N/A**	N/A
Inflation (RPI) (non-pensioner)	**3.25%**	3.70%
Inflation (CPI) (non-pensioner)	**2.75%**	3.20%
Allowance for revaluation of deferred pensions of RPI or 5% p.a. if less	**3.25%**	3.70%
Allowance for revaluation of deferred pensions of CPI or 5% p.a. if less	**2.75%**	3.20%
Allowance for pension in payment increases of RPI or 5% p.a. if less	**2.90%**	3.55%
Allowance for pension in payment increases of CPI or 3% p.a. if less	**2.00%**	2.60%
Allowance for pension in payment increases of RPI or 5% p.a. if less, minimum 3% p.a.	**3.80%**	3.85%
Allowance for pension in payment increases of RPI or 5% p.a. if less, minimum 4% p.a.	**4.35%**	4.30%

The mortality assumptions adopted at 31 March 2023 are 165% and 165% respectively of the standard tables S3PMA/S3PFA (2022: 143%/153% of S3PMA/S3PFA respectively), year of birth, no age rating for males and females, projected using CMI_2021 converging to 1.0% p.a. (2022: 1.0%) with a smoothing parameter 7.0% (2022: 7.0%). The change in % applied follows an independent review prepared for the 2021 actuarial valuation.

It is recognised that the Core CMI_2021 model is likely to represent an overly cautious view of experience in the near term. As a result, management has applied judgement and the CMI_2021 model has been adopted with a w2021 and w2020 weighting parameter of 10% to represent possible future trend as a best estimate and will be kept under review in the future. These assumptions imply the following life expectancies:

	2023	2022
Life expectancy for a male (current pensioner) aged 65	**17.8 years**	18.8 years
Life expectancy for a female (current pensioner) aged 65	**20.4 years**	20.9 years
Life expectancy at 65 for a male aged 45	**18.7 years**	19.7 years
Life expectancy at 65 for a female aged 45	**21.6 years**	22.0 years

It is assumed that 75% of the post A-Day maximum for active and deferred members will be commuted for cash (2022: 75%).

Pension Increase Exchange take-up was estimated to be 40% on implementation in the prior year; there has been no change made to this assumption nor to the 2021 bridging pension option take-up of 40%.

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

Notes to the consolidated financial statements continued

for the year ended 31 March 2023

24 Retirement benefit obligations continued

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

	2023 %	2023 £000	2022 %	2022 £000
Discount rate[1]				
Increase of 0.25% per annum	**(2.41%)**	**(3,228)**	(3.68%)	(6,682)
Decrease of 0.25% per annum	**2.51%**	**3,365**	3.82%	6,937
Decrease of 1.0% per annum	**10.71%**	**14,363**	16.10%	29,258
Inflation[2]				
Increase of 0.25% per annum	**0.64%**	**853**	1.25%	2,272
Increase of 1.0% per annum	**2.77%**	**3,711**	4.71%	8,568
Decrease of 1.0% per annum	**(2.61%)**	**(3,499)**	(5.47%)	(9,948)
Life expectancy				
Increase of 1 year	**4.30%**	**5,765**	4.88%	8,862

1. At 31 March 2023, the assumed discount rate is 4.90% (2022: 2.70%).
2. At 31 March 2023, the assumed rate of RPI inflation is 3.25% and CPI inflation 2.75% (2022: RPI 3.70% and CPI 3.20%).

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

The weighted average duration of the defined benefit obligation at 31 March 2023 is twelve years (2022: 15 years).

The life expectancy assumption at 31 March 2023 is based upon increasing the age rating assumption by one year (2022: one year).

Other than those specifically mentioned above, there were no changes in the methods and assumptions used in preparing the sensitivity analysis from the prior year.

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

	2023 £000	2022 £000
Present value of funded obligation	**(134,091)**	(181,759)
Fair value of scheme asset investments	**99,598**	155,780
Recognised liability for defined benefit obligations	**(34,493)**	(25,979)
Actual loss on scheme assets	**(47,166)**	(3,504)
Actuarial gains due to changes in demographic assumptions	**7,539**	1,767
Actuarial gains due to changes in financial assumptions	**38,032**	13,476

Notes to the consolidated financial statements continued

for the year ended 31 March 2023

25 Provisions

	2023			2022	
	Legacy health claims £000	**Onerous contract £000**	**Total £000**	Onerous contract £000	Total £000
Provisions at the start of the year	**–**	**87**	**87**	–	–
Provisions established in the period	**302**	**171**	**473**	87	87
Provisions used in the period	**–**	**(87)**	**(87)**	–	–
Provisions at the end of the year	**302**	**171**	**473**	87	87
Non-current	**–**	**–**	**–**	–	–
Current	**302**	**171**	**473**	87	87
	302	**171**	**473**	87	87

Provision has been made in the year to 31 March 2023 for legacy health-related claims, classified as an exceptional cost; external advice has been sought where appropriate. The outcome is expected to be known before 31 March 2024.

Provision has been recognised for an onerous lease, classified as an exceptional cost, which arises from the ongoing manufacturing footprint rationalisation. The lease term ends mid-March 2024 so the provision is expected to have been fully utilised by 31 March 2024.

A provision was made at 31 March 2022 for a loss-making customer contract in China. The terms of this contract have now been renegotiated and the contract is no longer onerous.

26 Trade and other payables – falling due within one year

	2023 £000	2022 £000
Trade payables	**13,085**	13,399
Other taxes and social security costs	**940**	1,204
Other creditors	**2,599**	2,071
Accruals	**4,784**	4,388
	21,408	21,062

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for the year ended 31 March 2023

27 Ordinary share capital
Ordinary shares of 5 pence each

	Number of shares	£000
Issued and fully paid at 31 March 2022	73,419,193	3,671
Issued and fully paid at 31 March 2023	**73,419,193**	**3,671**

There are 15,974 vested shares outstanding in respect of a buyout award granted to a former Director of the Company. These are yet to be issued.

There are 2,857,752 potential share options outstanding under the performance share plan at 31 March 2023 (2022: 1,517,376). No options vested during the year to 31 March 2023 (2022: £nil).

Outstanding awards under the performance share plan are as follows:

	Date granted	Number of shares	Price	Earliest date of vesting
Performance share plan	5 August 2021	1,361,818	nil	5 August 2024
Performance share plan	3 August 2022	1,495,934	nil	3 August 2025

Conditional share awards have been granted to Executive Directors and senior managers within the Group under the Carclo plc 2017 Performance Share Plan (the "PSP"). In addition, a number of managers have been granted conditional cash awards linked to the future value of Carclo plc shares, which also fall within the scope of IFRS 2 Share-based Payments.

The vesting conditions for the outstanding cash and equity awards are linked to continued employment and satisfaction of market-based and non-market-based performance conditions.

As required under IFRS 2, a charge is recognised for the conditional share awards and conditional cash awards granted under the PSP, and awards are valued using a Monte Carlo model and a Black-Scholes model. Additional awards granted to Executive Directors are subject to a two-year post-vesting holding period applicable to the post-tax number of shares acquired on vest. For these awards, a discount for lack of marketability ("DLOM") has been calculated using a Finnerty model.

Notes to the consolidated financial statements continued

for the year ended 31 March 2023

27 Ordinary share capital continued

The fair value per share of the awards under the performance share plan granted in the year is as follows:

	2023					
Performance share plan – date granted 3 August 2022	**Cash award TSR**	**Cash award EPS**	**Equity award TSR**	**Equity award EPS**	**Restricted equity award TSR**	**Restricted equity award EPS**
Number of shares per tranche	**414,658**	**414,658**	**260,550**	**260,550**	**100,079**	**100,079**
Fair value at grant date	**3.8p**	**12.8p**	**10.9p**	**20.2p**	**8.3p**	**15.4p**
Share price at grant date	**20.2p**	**20.2p**	**20.2p**	**20.2p**	**20.2p**	**20.2p**
Exercise price	**0.0p**	**0.0p**	**0.0p**	**0.0p**	**0.0p**	**0.0p**
Risk-free rate	**1.79%**	**1.79%**	**1.79%**	**1.79%**	**1.79%**	**1.79%**
Expected volatility	**106.11%**	**106.11%**	**106.11%**	**106.11%**	**106.11%**	**106.11%**
Expected dividend yield	**0%**	**0%**	**0%**	**0%**	**0%**	**0%**

	2022					
Performance share plan – date granted 5 August 2021	Cash award TSR	Cash award EPS	Equity award TSR	Equity award EPS	Restricted equity award TSR	Restricted equity award EPS
Number of shares per tranche	293,621	293,621	398,754	398,754	100,079	100,079
Fair value at grant date	8.9p	20.4p	30.4p	41.6p	21.4p	29.3p
Share price at grant date	41.6p	41.6p	41.6p	41.6p	41.6p	41.6p
Exercise price	0.0p	0.0p	0.0p	0.0p	0.0p	0.0p
Risk-free rate	0.16%	0.16%	0.16%	n/a	0.16%	n/a
Expected volatility	108.96%	108.96%	108.96%	n/a	108.96%	n/a
Expected dividend yield	0%	0%	0%	0%	0%	0%

Restricted equity awards are subject to a two-year post-vesting holding period.

The equity and restricted equity awards issued under the performance share plan on 3 August 2022 and 5 August 2021 have a split performance condition whereby half of the awards would vest after three years based on performance compared to total shareholder return ("TSR") and the remaining half would vest based on earnings per share ("EPS") performance. 100% of the awards subject to the TSR performance condition will vest where the Company's average share price during the 30 days prior to vest (the "measurement period") is at least 90 pence and 0% if the average is lower than 71 pence. 5% will vest for each whole penny that the share price during the measurement period exceeds 70 pence. Cash awards are subject to a cap on the quantum of cash which can be paid which is equal to the number of shares underpinning the award multiplied by 90 pence. 100% of awards granted on 3 August 2022, subject to the EPS condition, will vest in full if Carclo plc's EPS for the financial year ending 31 March 2025 (31 March 2024 for the awards granted 5 August 2021) is at least 8.0 pence. 5% of the shares subject to the EPS part of the award would vest for every 0.1 pence above 6.0 pence.

The expected volatility is based on the historical volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information.

The amounts recognised in the income statement arising from equity-settled share-based payments was a credit of £0.045 million (2022: charge of £0.059 million).

Notes to the consolidated financial statements continued

for the year ended 31 March 2023

27 Ordinary share capital continued

The number and weighted average exercise price of the outstanding awards under the PSP are set out in the following table:

	2023		2022	
	Weighted average exercise price pence	**Number of shares**	Weighted average exercise price pence	Number of shares
Outstanding at 1 April	–	**1,533,350**	–	148,974
Lapsed during the period	–	**(210,198)**	–	(200,532)
Exercised during the period	–	–	–	–
Granted during the period	–	**1,550,574**	–	1,584,908
Outstanding at the end of the period	–	**2,873,726**	–	1,533,350
Exercisable at 31 March		**15,974**		15,974
Weighted average remaining contractual life at 31 March		**1.87 years**		2.35 years

28 Reserves

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations that are not integral to the operations of the Company, as well as from the translation of liabilities that hedge the Company's net investment in a foreign subsidiary.

Retained earnings

Netted against retained earnings is the cost of own shares held by the Group. The Company maintains an employee share ownership plan for the benefit of employees and which can be used in conjunction with any of the Group's share option schemes. As at 31 March 2023, the plan held 3,077 shares (2022: 3,077 shares). The original cost of these shares was £0.003 million (2022: £0.003 million). The cost of the shares was charged against the profit and loss account.

Notes to the consolidated financial statements continued

for the year ended 31 March 2023

29 Financial instruments

The Group's financial instruments comprise bank loans and overdrafts, cash and short-term deposits. These financial instruments are used for the purpose of funding the Group's operations. In addition, the Group has other financial instruments such as trade receivables, trade payables and lease liabilities which arise directly from its operational activities.

The Group is exposed to a range of financial risks as part of its day-to-day activities. These include credit risk, interest rate risk, liquidity risk and foreign currency risk.

a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or financial institution fails to meet its contractual obligations. The Group's credit risk is mainly attributable to its trade receivables which the Group mitigates by way of credit insurance. Credit insurance, covering insolvency, default and political risk, is sought for all customers where exposure is in excess of £0.02 million. The amounts shown in the balance sheet are after making due provision for any doubtful debts.

The Group maintains any surplus cash balances on deposit accounts or legal offset accounts with the Group's principal bank, which has a high credit rating assigned by independent international credit rating agencies. In addition, the Group has undrawn revolving credit facilities of £nil at 31 March 2023 (2022: £nil).

The maximum exposure to credit risk as at 31 March was:

	2023 £000	2022 £000
Trade receivables, net of attributable impairment provisions (see note 19)	**16,775**	14,792
Cash and cash deposits (see note 20)	**10,354**	12,347
Contract assets (see note 18)	**5,763**	7,700
	32,892	34,839

Carclo is a worldwide supplier of components and systems. As a consequence, the Group's trade receivables and contract assets reside across a broad spectrum of countries with potentially higher attributable credit risk in certain territories. The following tables analyse the geographical location of trade receivables (net of attributable impairment provisions) and of contract assets:

	2023 £000	2022 £000
United Kingdom	**6,693**	6,599
Rest of Europe	**1,537**	1,166
North America	**6,063**	4,427
Rest of world	**2,482**	2,600
Trade receivables, net of attributable impairment provisions	**16,775**	14,792
United Kingdom	**1,165**	1,316
Rest of Europe	**276**	2,166
North America	**4,321**	4,218
Rest of world	**1**	–
Contract assets, net of attributable impairment provisions	**5,763**	7,700

Notes to the consolidated financial statements

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for the year ended 31 March 2023

29 Financial instruments continued

b) Interest rate risk

The Group's borrowings are on fixed and floating rate terms, no borrowings are non-interest bearing. The interest charge borne by the Group in the year to 31 March 2023 was c.40% higher than prior year as a result of significant market interest rate increases impacting the floating rate borrowings.

The interest rate profile of financial liabilities by currency of the Group as at 31 March was as follows:

	Fixed rate interest payable £000	**Floating rate interest payable £000**	**Total £000**
As at 31 March 2023			
Sterling	**4,979**	**17,337**	**22,316**
US dollar	**5,966**	**10,789**	**16,755**
Euro	**886**	**4,324**	**5,210**
Other	**433**	**–**	**433**
	12,264	**32,450**	**44,714**

	Fixed rate interest payable £000	Floating rate interest payable £000	Total £000
As at 31 March 2022			
Sterling	4,422	19,464	23,886
US dollar	4,839	10,146	14,985
Euro	86	4,150	4,236
Other	1,645	–	1,645
	10,992	33,760	44,752

Notes to the consolidated financial statements

continued

for the year ended 31 March 2023

29 Financial instruments continued

b) Interest rate risk continued

The interest rate profile of financial assets by currency of the Group as at 31 March was as follows:

	Floating rate interest receivable £000	Non-interest bearing receivable £000	Total £000
As at 31 March 2023			
Sterling	**–**	**1,965**	**1,965**
US dollar	**132**	**3,694**	**3,826**
Euro	**–**	**3,157**	**3,157**
Other	**81**	**1,325**	**1,406**
	213	**10,141**	**10,354**

	Floating rate interest receivable £000	Non-interest bearing receivable £000	Total £000
As at 31 March 2022			
Sterling	–	2,921	2,921
US dollar	2,511	1,179	3,690
Euro	–	1,632	1,632
Other	–	4,104	4,104
	2,511	9,836	12,347

The floating rate of interest earned on cash balances is in the range bank base –1% to bank base +2%.

The Group has a UK multi-currency net overdraft facility with a £nil net limit and a £12.5 million gross limit. The overdrafts bear interest at 4.5% above prevailing UK bank base rates. At 31 March 2023, Carclo plc's overdraft of £6.5 million (2022: £2.4 million) has been recognised within cash and cash deposits when consolidated due to a right of set-off.

Notes to the consolidated financial statements continued

for the year ended 31 March 2023

29 Financial instruments continued

c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages this risk by maintaining a mixture of term loans, revolving credit facilities and short-term overdraft facilities which have been established to ensure that adequate funding is available for its operating, investing and financing activities. Refer to note 22 for further details.

As detailed in note 22, at 31 March 2023, the Group had committed term loans outstanding of £29.3 million (2022: £30.3 million), a committed revolving credit facility available of £3.5 million which was £3.5 million drawn (2022: £3.5 million facility, £3.5 million drawn) and additional UK net overdraft facilities totalling £nil (2022: £nil), repayable on demand.

The Group's net debt at 31 March 2023 was £34.4 million (2022: £32.4 million). The net debt comprised £44.7 million interest-bearing loans and borrowings (see note 22) less £10.4 million cash and cash deposits (see note 20).

The Group's term loan and revolving credit facilities are available in the UK; net overdraft facilities available in the UK totalled £nil at 31 March 2023 and as such the plc overdraft at year end of £6.5 million has been presented net against cash and cash deposits.

The Group performs a detailed, weekly, rolling 13-week cash flow forecast to help manage its short-term liquidity risk. Additionally, the Board monitors a monthly twelve-month Group cash flow forecast, comparing it to internal targets and covenants and thresholds established with the Group's bankers.

The maturity of financial liabilities of the Group as at 31 March was as follows:

	Term loan £000	Revolving credit facility £000	Other loans £000	Lease liabilities £000	Total £000
As at 31 March 2023					
Within 1 year	**1,224**	**–**	**115**	**3,707**	**5,046**
Within 1 to 2 years	**2,049**	**–**	**164**	**3,584**	**5,797**
Within 2 to 5 years	**25,677**	**3,500**	**115**	**3,856**	**33,148**
More than 5 years	**–**	**–**	**–**	**723**	**723**
	28,950	**3,500**	**394**	**11,870**	**44,714**

	Term loan £000	Revolving credit facility £000	Other loans £000	Lease liabilities £000	Total £000
As at 31 March 2022					
Within 1 year	1,331	–	70	1,546	2,947
Within 1 to 2 years	28,929	3,500	43	1,582	34,054
Within 2 to 5 years	–	–	9	6,167	6,176
More than 5 years	–	–	–	1,575	1,575
	30,260	3,500	122	10,870	44,752

Notes to the consolidated financial statements continued

for the year ended 31 March 2023

29 Financial instruments continued

d) Foreign currency risk

The Group has a number of overseas subsidiary operations. The major overseas subsidiaries are located in the United States, France, the Czech Republic, China and India. Hence, the balance sheet of the Group can be affected by the applicable conversion rates, the sterling/US dollar exchange rate in particular. It is the Group's policy to hedge the effect of such structural currency exposures by having borrowings in the appropriate currencies where it is considered efficient to do so. A loan of US$13.3 million (2022: US$13.3 million) is designated as the hedging instrument against foreign currency exposures in the net investment in the trading subsidiaries in the United States. A loan of €4.9 million (2022: €4.9 million) is designated as the hedging instrument against foreign currency exposures in the net investment in the European operations. Under this hedge accounting, foreign exchange gains and losses on non-GBP loans are recognised, not in the income statement, but in other comprehensive income.

In addition, the Group is subject to transactional foreign currency exposures arising from the sale and purchase of goods and services in currency other than the Company's local currency. Historically it has been the Group's policy to hedge such exposure where the net exposure in any one currency exceeds an estimated £20,000 on any day using forward contracts. However, within the UK operations, opportunities have been exploited to naturally hedge inflows in currency with similar outflows. It is the Group's policy not to undertake any speculative transactions.

The fair value of the forward contracts at the start and end of the financial year was immaterial. The cash flows associated with the forward contracts are summarised as follows:

	2023		2022	
	Less than 6 months £000	**6 – 12 months £000**	Less than 6 months £000	6 – 12 months £000
Assets	**923**	**–**	825	–
Liabilities	**–**	**–**	–	–
	923	**–**	825	–

The balance sheet exposure to currency at the year end arising from trading activities is illustrated in the following analysis by currency of the Group's trade receivables and trade payables:

	Sterling £000	**US dollar £000**	**Euro £000**	**Other £000**	**Total £000**
As at 31 March 2023					
Trade receivables, net of attributable impairment provisions	**5,982**	**6,407**	**1,581**	**2,805**	**16,775**
Trade payables	**(3,777)**	**(7,086)**	**(1,249)**	**(973)**	**(13,085)**
Net	**2,205**	**(679)**	**332**	**1,832**	**3,690**
As at 31 March 2022					
Trade receivables, net of attributable impairment provisions	6,520	4,832	1,461	1,979	14,792
Trade payables	(4,482)	(6,856)	(813)	(1,248)	(13,399)
Net	2,038	(2,024)	648	731	1,393

Notes to the consolidated financial statements
continued
for the year ended 31 March 2023

29 Financial instruments continued
d) Foreign currency risk continued
The following table summarises the main exchange rates used during the year:

	Average rate		Reporting date mid-market rate	
	2023	2022	**2023**	2022
Sterling/US dollar	**1.19**	1.35	**1.24**	1.32
Sterling/euro	**1.18**	1.18	**1.14**	1.19
Sterling/Czech koruna	**27.74**	29.80	**26.69**	28.96
Sterling/Chinese yuan	**8.22**	8.76	**8.50**	8.34
Sterling/Indian rupee	**96.99**	101.78	**101.56**	99.83

Fair values
The fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between third parties. Where available, market values are used to determine fair values, otherwise fair values are calculated by discounting expected cash flows at prevailing interest and exchange rates. The fair value of the derivatives and financial instruments was not materially different to the book value at 31 March 2023 and 31 March 2022. Unrecognised and deferred gains and losses in respect of derivatives and financial instruments at 31 March 2023 were insignificant.

Hedges of net investments in foreign operations
The Group has net investments in foreign operations in its subsidiaries in North America, France, the Czech Republic, China and India, as detailed in note 3 Segment reporting – analysis by geographical segment.

A foreign currency exposure arises from the Group's net investments in subsidiaries with foreign currencies i.e. functional currencies other than sterling. The risk arises from the fluctuations in spot exchange rates between these foreign currencies and sterling (in particular the sterling/US dollar exchange rate), which causes the amount of the Group's net investment to vary when translated into sterling.

Parts of the Group's net investments in these overseas subsidiaries are hedged by foreign currency denominated, secured bank loans, as detailed in note 22 Loans and borrowings. This mitigates the foreign currency risks arising from the subsidiary's net assets. The loan is designated as a hedging instrument for the changes in the value of the net investments that are attributable to changes in the spot exchange rates.

A summary of the Group's hedges of net investments in foreign operations is as follows:

	2023			2022		
		Carrying amount			Carrying amount	
	Loans and borrowings £000	**Assets £000**	**Liabilities £000**	Loans and borrowings £000	Assets £000	Liabilities £000
US dollar	**10,789**	**56,240**	**(28,329)**	10,146	48,112	(20,845)
Euro	**4,324**	**5,244**	**(1,081)**	4,150	1,888	(647)
Other currencies	**–**	**34,659**	**(12,017)**	–	33,740	(8,465)

To assess hedge effectiveness, the Group determines the economic relationship between the hedging instrument and the hedged item by comparing changes in the carrying amount of the debt that is attributable to a change in the spot rate with changes in the investment in the foreign operation due to movements in the spot rate (the offset method). The Group's policy is to hedge the net investment only to the extent of the debt principal.

During the year a profit of £0.8 million was recognised on these hedging instruments within other comprehensive income. During the year there has been no hedge ineffectiveness recognised in profit or loss.

Notes to the consolidated financial statements

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for the year ended 31 March 2023

29 Financial instruments continued

d) Foreign currency risk continued

In managing interest rate and currency risks the Group aims to reduce the impact of short-term fluctuations on the Group's earnings. Over the longer term, however, permanent changes in foreign exchange and interest rates would have an impact on consolidated earnings. In the year ended 31 March 2023, it is estimated that a general increase of one percentage point in interest rates would have decreased the Group's profit before tax by approximately £0.341 million (2022: £0.342 million decrease).

It is estimated that a general increase of 10% in the value of sterling against the above-noted main currencies would have decreased the Group's profit before tax by approximately £0.8 million for the year ended 31 March 2023 (2022: £0.8 million decrease) which is detailed by currency in the following table:

	2023 £000	2022 £000
US dollar	**269**	367
Euro	**39**	15
Czech koruna	**88**	39
Other	**410**	403
	806	824

Capital risk management

The capital structure of the Group consists of net debt (comprising borrowings as detailed in note 22 offset by cash and bank balances) and equity of the Group (comprising issued share capital, reserves and retained earnings as detailed in the statement of changes in equity).

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an appropriate capital structure. In order to maintain or adjust the capital structure, the Group will take into account the amount of dividends paid to shareholders, the level of debt and the number of shares in issue. Close control of deployment of capital is maintained by detailed management review procedures for authorisation of significant capital commitments, such as land acquisition, capital targets for local management and a system of internal interest charges, ensuring capital cost impact is understood and considered by all management tiers.

Decisions regarding the balance of equity and borrowings, dividend policy and all major borrowing facilities are reserved for the Board.

Notes to the consolidated financial statements continued

for the year ended 31 March 2023

30 Cash generated from operations

	2023 £000	2022 £000
(Loss)/profit for the year	**(3,957)**	5,799
Adjustments for:		
Pension scheme contributions net of costs settled by the Company	**(3,287)**	(3,258)
Pension scheme costs settled by the Scheme	**559**	569
Depreciation charge	**7,815**	6,825
Amortisation charge	**211**	203
Exceptional rationalisation costs	**1,304**	–
Exceptional costs arising from cancellation of future supply agreement	**751**	–
Exceptional doubtful debt and related inventory provision	**896**	–
Exceptional costs in respect to legacy claims	**302**	–
Exceptional gain in respect of retirement benefits	**–**	(854)
Exceptional profit on disposal of surplus property	**(769)**	–
Conversion of COVID-19 government support loan to grant	**–**	(2,087)
Profit on business disposal	**–**	(693)
Loss on disposal of intangible non-current assets	**14**	–
Share-based payment (credit)/charge	**(33)**	73
Financial income	**(218)**	(77)
Financial expense	**3,967**	3,066
Taxation expense	**1,437**	809
Operating cash flow before changes in working capital	**8,992**	10,375
Changes in working capital		
Decrease/(increase) in inventories	**1,539**	(3,816)
Decrease/(increase) in contract assets	**2,388**	(4,708)
(Increase)/decrease in trade and other receivables	**(1,656)**	42
(Decrease)/increase in trade and other payables	**(943)**	4,549
(Decrease)/increase in contract liabilities	**(2,542)**	338
Cash generated from operations	**7,778**	6,780

Notes to the consolidated financial statements
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for the year ended 31 March 2023

31 Financial commitments

	2023 £000	2022 £000
The Directors have authorised the following future capital expenditure which is contracted:	**795**	944

All of the above is property, plant and equipment.

32 Related parties
Identity of related parties

The Group has a related party relationship with its subsidiaries (see note 33), its Directors and executive officers and the Group pension scheme. There are no transactions that are required to be disclosed in relation to the Group's 60% dormant subsidiary Platform Diagnostics Limited.

On 6 October 2022, the Board announced, with immediate effect, the appointment of Frank Doorenbosch as Chief Executive Officer of Carclo plc. Frank had previously been appointed as a consultant to the Group for a period of up to twelve months from 6 June 2022 and accordingly since that date has been an Executive Director of Carclo plc. On the same day, Nick Sanders stood down as Executive Chair and became Non-Executive Chair until 5 November 2022, when the Board announced that Nick Sanders would be stepping down from his role as Non-Executive Chair and as a Director of the Company.

The Board appointed Joe Oatley as Non-Executive Chair with effect from 6 November 2022 and Eric Hutchinson, a Non-Executive Director and Chair of the Audit and Risk Committee, was appointed as Senior Independent Director and Chair of the Remuneration Committee with effect from 6 November 2022.

Phil White gave notice of his retirement and stepped down from his role as Chief Financial Officer and as a Director of the Company with effect from 14 November 2022. Phil remained with the Company until his retirement in June 2023 in order to ensure a smooth transition to the new Chief Financial Officer. The Board announced the promotion of David Bedford to Chief Financial Officer and appointment as a Director of the Company with effect from 14 November 2022.

The Board appointed Rachel Amey as a Non-Executive Director on 1 March 2023.

During the year to 31 March 2023, the Group paid £0.681 million (2022: £0.169 million) to Thingtrax, a company that offers intelligent manufacturing infrastructure as a service. Frank Doorenbosch, a Carclo plc Executive Director, is also a Non-Executive Director of Thingtrax and, as such, the company is identified as a related party. During the year to 31 March 2023, £0.5 million (2022: £0.1 million) has been recognised as a cost in the income statement, the balance of £0.2 million has been prepaid and will be recognised in the year to 31 March 2024.

There have been no other changes to related parties in the year ended 31 March 2023.

Transactions with key management personnel

Key management personnel are considered to be the Executive Directors of the Group.

Details of Directors' remuneration can be found in the Directors' remuneration report on pages 76 to 96.

Group pension scheme

A third-party professional firm is engaged to administer the Group pension scheme (the Carclo Group Pension Scheme). The associated investment costs are borne by the Scheme in full. It has been agreed with the trustees of the pension scheme that, under the terms of the recovery plan, the scheme would bear its own administration costs.

Contributions agreed with the trustees of the Group pension scheme were £0.292 million per month during the year to 31 March 2023 to incorporate both deficit recovery contributions and scheme expenses including PPF levy. An additional £0.35 million was also paid under the revised schedule of contributions. Monthly cost will remain the same in the year to 31 March 2024 plus additional contributions of 25% of any surplus of 2023/24 underlying EBITDA over £18.0 million agreed.

Carclo incurred administration costs of £1.4 million during the period which has been charged to the consolidated income statement, including £0.2 million presented as exceptional costs (2022: £1.2 million, of which £0.2 million were presented as exceptional costs). Costs of £nil were incurred to manage the plans assets (2022: £0.1 million recognised against the pension deficit). Of the administration costs, £0.8 million was paid directly by the scheme (2022: £0.6 million). The total of deficit reduction contributions and administration costs paid by the Group during the period was £4.1 million (2022: £3.9 million).

Notes to the consolidated financial statements continued

for the year ended 31 March 2023

33 Group entities

Control of the Group

The Group's ultimate parent company is Carclo plc which is incorporated in England.

The ordinary share capital of the subsidiary undertakings is owned by the Company except where indicated.

Investments in subsidiaries

The Company and Group have the following investments in subsidiaries:

Company	Registered office address	Principal place of business	Status	Class of shares held	2023 %	2022 %
Acre Mills (UK) Limited	1	UK	Dormant	Ordinary	**100**	100
Arthur Lee & Sons (Hot Rolling Mills) Limited	1	UK	Dormant	Ordinary	**100**	100
Australian Card Clothing Limited	1	UK	Dormant	Ordinary	**100**	100
Bruntons Aero Products Limited	1	UK	Active	Ordinary	**100**	100
Bruntons (Musselburgh) Limited	2	UK	Dormant	Ordinary	**100**	100
Brymill Stockholders Limited	1	UK	Dormant	Ordinary	**100**	100
Carclo Diagnostic Solutions Limited	1	UK	Dormant	Ordinary	**100**	100
Carclo Group Services Limited	1	UK	Active	Ordinary	**100**	100
Carclo Holding Corporation	One Nexus Way, Camana Bay, Grand Cayman, KY1-9005	Cayman Islands	Active	Ordinary	**100**	100
Carclo Holding Limited	1	UK	Dormant	Ordinary	**100**	100
Carclo Investments Limited	1	UK	Dormant	Ordinary	**100**	100
Carclo Overseas Holdings Limited	1	UK	Active	Ordinary	**100**	100
Carclo Technical Plastics Limited	1	UK	Active	Ordinary	**100**	100
Carclo Technical Plastics Private Co. Limited	27A (2) KIADB Industrial Area, Doddabalapur, Bangalore – 561203, Karnataka	India	Active	Ordinary	**100**	100
Carclo Technical Plastics (Mitcham) Limited	1	UK	Dormant	Ordinary	**100**	100
Carclo Technical Plastics (Slough) Limited	1	UK	Dormant	Ordinary	**100**	100
Carclo Zephyr Limited	1	UK	Dormant	Ordinary	**100**	100
CIT Technology Limited	1	UK	Active	Ordinary	**100**	100
Critchley, Sharp & Tetlow Limited	1	UK	Dormant	Ordinary	**100**	100
Crowther & Gee Limited	1	UK	Dormant	Ordinary	**100**	100
CTP Davall Limited	2	UK	Dormant	Ordinary	**100**	100

1. Registered office address is: Unit 5, Silkwood Court, Ossett, United Kingdom, WF5 9TP.
2. Registered office address is: C/O Bruntons Aero Products, Units 1-3, Block 1, Inveresk Industrial Estate, Musselburgh, East Lothian, EH21 7PA.

Notes to the consolidated financial statements
continued
for the year ended 31 March 2023

33 Group entities continued
Investments in subsidiaries continued

Company continued	Registered office address	Principal place of business	Status	Class of shares held	**2023 %**	2022 %
CTP Lichfield Limited	1	UK	Dormant	Ordinary	**100**	100
Carclo Platt Nederland BV	1	UK	Active	Ordinary	**100**	100
CTP Silleck Limited	1	UK	Dormant	Ordinary	**100**	100
CTP Silleck Scotland Limited	2	UK	Dormant	Ordinary	**100**	100
CTP White Knight Limited	1	UK	Dormant	Ordinary	**100**	100
Dell Baler Limited	1	UK	Dormant	Ordinary	**100**	100
Edwin Stead & Sons Limited	1	UK	Dormant	Ordinary	**100**	100
Fairbank Brearley Limited	1	UK	Dormant	Ordinary	**100**	100
Finespark (Horsham) Limited	1	UK	Active	Ordinary	**100**	100
Highfield Mills Limited	1	UK	Dormant	Ordinary	**100**	100
Hills Diecasting Company Limited	1	UK	Dormant	Ordinary	**100**	100
Hills Non Ferrous Limited	1	UK	Dormant	Ordinary	**100**	100
Horsfall & Bickham Limited	1	UK	Dormant	Ordinary	**100**	100
Horsfall Card Clothing Limited	1	UK	Dormant	Ordinary	**100**	100
Ironfoil Limited	1	UK	Dormant	Ordinary	**100**	100
John Sharp (Wire) Limited	1	UK	Dormant	Ordinary	**100**	100
J.W.& H. Platt Limited	1	UK	Dormant	Ordinary	**100**	100
Lee of Sheffield Limited	1	UK	Dormant	Ordinary	**100**	100
Lee Stainless Steel Services Limited	1	UK	Dormant	Ordinary	**100**	100
Leeplas Limited	1	UK	Dormant	Ordinary	**100**	100
Metallic Card Clothing Company Limited (The)	1	UK	Dormant	Ordinary	**100**	100
Norseman (Cables & Extrusions) Limited	1	UK	Dormant	Ordinary	**100**	100
Novoplex Limited	1	UK	Dormant	Ordinary	**100**	100
Pratt, Levick and Company Limited	1	UK	Dormant	Ordinary	**100**	100
Rumbold Securities Limited	1	UK	Dormant	Ordinary	**100**	100
Seymour Plastics Limited	1	UK	Dormant	Ordinary	**100**	100
Sheffield Wire Rope Company Limited (The)	1	UK	Dormant	Ordinary	**100**	100

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Notes to the consolidated financial statements continued

for the year ended 31 March 2023

33 Group entities continued

Investments in subsidiaries continued

Company continued	Registered office address	Principal place of business	Status	Class of shares held	**2023 %**	2022 %
Shepley Investments Limited	1	UK	Dormant	Ordinary	**100**	100
Smith Wires Limited	1	UK	Dormant	Ordinary	**100**	100
Station Road (UK) Limited	1	UK	Dormant	Ordinary	**100**	100
Streamline Aerospace Limited	1	UK	Dormant	Ordinary	**100**	100
Texture Rolled Limited	1	UK	Dormant	Ordinary	**100**	100
Thomas White & Sons Limited	2	UK	Dormant	Ordinary	**100**	100
Trubrite Limited	1	UK	Dormant	Ordinary	**100**	100
Tru-Grit Limited	1	UK	Dormant	Ordinary	**100**	100
Woodcock & Booth Limited	1	UK	Dormant	Ordinary	**100**	100
Woodhead Limited	1	UK	Dormant	Ordinary	**100**	100
Yorkshire Engineering Supplies Limited	1	UK	Dormant	Ordinary	**100**	100

Group	Registered office address	Principal place of business	Status	Class of shares held	**2023 %**	2022 %
Apollo Steels Limited	1	UK	Dormant	Ordinary	**100**	100
Carclo France SAS	40 bis Avenue d'Orleans, 28000, Chartres	France	Active	Ordinary	**100**	100
Carclo Securities Limited	1	UK	Dormant	Ordinary	**100**	100
Carclo Technical Plastics (Brno) s.r.o	Turanka 98, 627000, Brno	Czech Republic	Active	Ordinary	**100**	100
Carclo US Finance No. 2	1	UK	Dormant	Ordinary	**100**	100
Carclo US Holdings Inc	600 Depot St. Latrobe, PA. 15650	USA	Active	Ordinary	**100**	100
Chapmans Springs Limited	1	UK	Dormant	Ordinary	**100**	100
CTP Alan Limited	1	UK	Dormant	Ordinary	**100**	100
CTP Carrera Inc	600 Depot St. Latrobe, PA. 15650	USA	Active	Ordinary	**100**	100
CTP Finance NV[3]	Pareraweg 45, Curacao	Curacao	Member's Voluntary Liquidation	Ordinary	**100**	100

1. Registered office address is: Unit 5, Silkwood Court, Ossett, United Kingdom, WF5 9TP.
2. Registered office address is: C/O Bruntons Aero Products, Units 1-3, Block 1, Inveresk Industrial Estate, Musselburgh, East Lothian, EH21 7PA.
3. Since 31 March 2023 CTP Finance NV has been confirmed as fully dissolved.

Notes to the consolidated financial statements continued

for the year ended 31 March 2023

33 Group entities continued

Investments in subsidiaries continued

Group continued	Registered office address	Principal place of business	Status	Class of shares held	2023 %	2022 %
CTP Moulded Gears Limited	1	UK	Dormant	Ordinary	**100**	100
CTP Precision Tooling Limited	1	UK	Dormant	Ordinary	**100**	100
CTP Taicang Co., Ltd	No. 8 Xixin Road, Chengxiang Town, Taicang City, Jiangsu Province 215411	China	Active	Ordinary	**100**	100
Datacall Limited	1	UK	Dormant	Ordinary	**100**	100
D.B.T. (Motor Factors) Limited	1	UK	Dormant	Ordinary	**100**	100
Douglas Campbell Limited	2	UK	Dormant	Ordinary	**100**	100
European Card Clothing Company Limited	1	UK	Dormant	Ordinary	**100**	100
Electro-Medical Limited	1	UK	Dormant	A1 ordinary & ordinary	**100**	100
Finemoulds Limited	1	UK	Dormant	Ordinary	**100**	100
Gilby-Brunton Limited	2	UK	Dormant	Ordinary	**100**	100
Industates Limited	1	UK	Dormant	Ordinary	**100**	100
Jacottet Industrie SAS	40 bis Avenue d'Orleans, 28000, Chartres	France	Active	Ordinary	**100**	100
John Shaw Lifting & Testing Services Limited	1	UK	Dormant	Ordinary	**100**	100
Jonas Woodhead Limited	1	UK	Dormant	Ordinary	**100**	100
Jonas Woodhead (Manchester) Limited	1	UK	Dormant	Ordinary	**100**	100
Jonas Woodhead (Ossett) Limited	1	UK	Dormant	Ordinary	**100**	100
Jonas Woodhead (Sheffield) Limited	1	UK	Dormant	Ordinary	**100**	100
Jonas Woodhead & Sons Limited	1	UK	Dormant	Ordinary	**100**	100
K.A.S. Precision Engineering Limited	1	UK	Dormant	Ordinary	**100**	100
Platform Diagnostics Limited	1	UK	Dormant	A1 ordinary	**60**	60
Rumbold Investments Limited	1	UK	Dormant	Ordinary	**100**	100
Shepley Securities Limited	1	UK	Dormant	Ordinary	**100**	100
Sima Plastics Limited	1	UK	Dormant	Ordinary	**100**	100
Squires Steel Stockholders Limited	1	UK	Dormant	Ordinary	**100**	100
Sybro Limited	1	UK	Dormant	Ordinary	**100**	100

1. Registered office address is: Unit 5, Silkwood Court, Ossett, United Kingdom, WF5 9TP.
2. Registered office address is: C/O Bruntons Aero Products, Units 1-3, Block 1, Inveresk Industrial Estate, Musselburgh, East Lothian, EH21 7PA.

Notes to the consolidated financial statements

continued

for the year ended 31 March 2023

33 Group entities continued

Investments in subsidiaries continued

Group continued	Registered office address	Principal place of business	Status	Class of shares held	2023 %	2022 %
Toledo Woodhead Springs Limited	1	UK	Dormant	Ordinary	**100**	100
Tolwood Engineering Limited	1	UK	Dormant	Ordinary	**100**	100
Woodhead Components Limited	1	UK	Dormant	Ordinary	**100**	100
Woodhead Construction Services Limited	1	UK	Dormant	Ordinary	**100**	100
Woodhead Steel Limited	1	UK	Dormant	Ordinary	**100**	100

1. Registered office address is: Unit 5, Silkwood Court, Ossett, United Kingdom, WF5 9TP.

34 Post balance sheet events

In December 2022, having delivered the Design and Engineering phase of the supply contract, the Group received notice from a leading global OEM customer that, due to a contraction in the end-market demand for COVID-19 testing, they would not be proceeding into the production phase of the project. On 30 May 2023, a mutually satisfactory settlement agreement was signed which largely offsets the Group's financial exposure arising from early termination of the contract. The Group has recognised an exceptional cost in the year to 31 March 2023 of £0.9 million, most of which is to recognise assets on balance sheet at recoverable amount, see note 9 for further details. The Group will recognise an exceptional gain in the income statement to 31 March 2024 of approximately £0.6 million. Although the details of the agreement remain confidential, full and final settlement was received on 21 June 2023.

On 22 June 2023, the Group's lending bank agreed to an adjustment of the interest and the net leverage covenants related to the facilities due to mature on 30 June 2025. On 1 June 2023, a voluntary repayment of £0.4 million was made and on 30 June 2023, a further voluntary repayment of £3.3 million was made.

Company balance sheet

as at 31 March 2023

	Notes	2023 £000	2023 £000	2022 £000	2022 £000
Fixed assets					
Property, plant and equipment	37	**125**		152	
Intangible assets	38	**65**		177	
Investments in subsidiary undertakings	39	**83,517**		93,795	
Deferred tax assets	44	**283**		952	
			83,990		95,076
Current assets					
Debtors – amounts falling due within one year	40	**73,452**		69,441	
Debtors – amounts falling due after more than one year	40	**220**		2,033	
Cash at bank and in hand		**547**		450	
		74,219		71,924	
Creditors – amounts falling due within one year					
Trade and other creditors	42	**(115,636)**		(109,232)	
Provisions	41	**(302)**		–	
		(115,938)		(109,232)	
Net current liabilities			**(41,719)**		(37,308)
Total assets less current liabilities			**42,271**		57,768
Creditors – amounts falling due after more than one year	43		**(37,905)**		(35,478)
Net assets excluding pension liability			**4,366**		22,290
Pension liability	45		**(34,493)**		(25,979)
Net liabilities			**(30,127)**		(3,689)
Capital and reserves					
Called-up share capital	27		**3,671**		3,671
Share premium account			**7,359**		7,359
Profit and loss account			**(41,157)**		(14,719)
Shareholders' deficit			**(30,127)**		(3,689)

The Company reported a loss after tax for the year of £15.828 million (2022: profit of £1.988 million).

These accounts were approved by the Board of Directors on 19 July 2023 and were signed on its behalf by:

Frank Doorenbosch
Director

David Bedford
Director

Registered Number 196249

Company statement of changes in equity
as at 31 March 2023

	Share capital £000	Share premium £000	Profit and loss account £000	Total equity £000
Balance at 1 April 2021	3,671	7,359	(25,260)	(14,230)
Profit for the year	–	–	1,988	1,988
Other comprehensive income				
Remeasurement gains on defined benefit scheme	–	–	8,480	8,480
Taxation on items above	–	–	–	–
Total comprehensive income for the year	–	–	10,468	10,468
Transactions with owners recorded directly in equity				
Share-based payments	–	–	73	73
Taxation on items recorded directly in equity	–	–	–	–
Balance at 31 March 2022	3,671	7,359	(14,719)	(3,689)
Balance at 1 April 2022	**3,671**	**7,359**	**(14,719)**	**(3,689)**
Loss for the year	**–**	**–**	**(15,828)**	**(15,828)**
Other comprehensive expense				
Remeasurement losses on defined benefit scheme	**–**	**–**	**(10,577)**	**(10,577)**
Taxation on items above	**–**	**–**	**–**	**–**
Total comprehensive expense for the year	**–**	**–**	**(26,405)**	**(26,405)**
Transactions with owners recorded directly in equity				
Share-based payments	**–**	**–**	**(33)**	**(33)**
Taxation on items recorded directly in equity	**–**	**–**	**–**	**–**
Balance at 31 March 2023	**3,671**	**7,359**	**(41,157)**	**(30,127)**

Notes to the Company financial statements

for the year ended 31 March 2023

35 Basis of preparation for the Company

Going concern

The financial statements are prepared on the going concern basis.

Group performance during the year has enabled capital investment to be made whilst retaining a stable financial position with net debt excluding lease liabilities as of 31 March 2023 increasing to £22.5 million (2022: £21.5 million). Net debt including lease liabilities at 31 March 2023 was £34.4 million (2022: £32.4 million), with the principal reason behind the increase being foreign exchange movements of £1.5 million.

On 2 September 2022, the Group successfully refinanced with the Company's bank, concluding a first amendment and restatement agreement relating to the multi-currency term and revolving facilities agreement dated 14 August 2020. The debt facilities available to the Group at 31 March 2023 comprise a term loan of £29.3 million, of which £1.4 million will be amortised by 31 March 2024 and a further £2.2 million amortised by 31 March 2025. The balance becomes payable by the termination date, 30 June 2025. At 31 March 2023, the term loans were denominated as follows: sterling 14.2 million, US dollar 13.3 million and euro 4.9 million. The facility also includes a £3.5 million revolving credit facility, denominated in sterling, maturing on 30 June 2025.

Since the year end there have been no significant changes to the Group's liquidity position. The term loan balances stood at sterling 10.2 million, US dollar 13.3 million and euro 4.9 million, totalling £27.0 million on 30 June 2023, with undrawn facilities of £1.5 million on the RCF.

As part of the original bank financing in August 2020 the Group became subject to four bank facility covenant tests. The quarterly covenants to be tested are:

- underlying interest cover;
- net debt to underlying EBITDA;
- core subsidiary underlying EBITA; and
- core subsidiary revenue.

Core subsidiaries are defined as Carclo Technical Plastics Ltd; Bruntons Aero Products Ltd; Carclo Technical Plastics (Brno) s.r.o; CTP Carrera Inc and Jacottet Industrie SAS, with CTP Taicang Co. Ltd and Carclo Technical Plastics Pvt Co Ltd being treated as non-core for the purposes of these covenants.

Following a more than doubling of the base rate in the first half of 2022/23, the Group reassessed its forecasts and concluded there was insufficient headroom available to meet all the agreed banking covenants in the event of certain downside scenarios taking place. Breach of any of these covenants could lead to the creditors calling in their debt, leaving the plc insolvent. As a result, at the half year, in recognition of a potential covenant breach, the Group issued a material uncertainty warning over its ability to continue trading as a going concern.

Since that time the Group has worked with the bank to amend the covenants and agreed adjustments to the Group's interest cover covenant for both the December 2022 and March 2023 testing points.

In December 2022 the Group announced the cancellation of a new business contract that would materially impact the results for 2022/23. Further discussions were held with the bank and, following a review of the Group's three-year plan up to March 2026, on 22 June 2023 the bank agreed to the Group's request to further amend the interest cover covenant to June 2025 and to an adjustment to the net debt to underlying EBITDA covenant to December 2023.

The banking covenants and thresholds set out in the recently renegotiated banking agreement are assumed to be in place throughout the going concern assessment period, and the legal documents surrounding this agreement have now been signed.

A schedule of contributions is also in place with the pension trustees with an agreed £3.5 million to be paid annually until 31 October 2039. Additional contributions also agreed are 25% of any surplus of 2023/24 underlying EBITDA over £18 million payable from 30 June 2024 to 31 May 2025, extending to 26% of any 2024/25 surplus payable from 30 June 2025 to 31 May 2026.

In addition, the pension scheme has the benefit of a fifth covenant to be tested each year up to and including 2023. The test requires any shortfall of pension deficit recovery contributions when measured against Pension Protection Fund priority drift (which is a measure of the increase in the UK Pension Protection Fund's potential exposure to the Group's pension scheme liabilities), to be met by a combination of cash payments to the scheme, plus a notional (non-cash) proportion of the increase in the underlying value of the CTP and Aerospace segments based on an EBITDA multiple for those businesses which is determined annually. This test will be completed on these audited financial statements and management expect this covenant to be met.

The Group is subject to a number of key risks and uncertainties, as detailed in the Principal risks and uncertainties section on pages 46 to 55. Mitigation actions are also considered in this section. These risks and uncertainties have been considered in the base case and severe downside sensitivities and have been modelled accordingly.

The Directors have reviewed cash flow and covenant forecasts to cover the period at least twelve months from the date of signing these consolidated financial statements, considering the Group's available debt facilities and the terms of the arrangements with the Group's bank and the Group pension scheme.

Notes to the Company financial statements continued

for the year ended 31 March 2023

35 Basis of preparation for the Company continued

Going concern continued

The base case forecast includes assumptions around sales, margins, working capital and interest rates. The sensitivity analysis has considered the risks facing the Group and has modelled the impact of each in turn, as well as considering the impact of aggregating certain risk types and shows that the Group is able to operate within its available facilities and meet its agreed covenants as they arise. Furthermore, the Directors have reviewed sensitivity testing, modelling a range of severe downside scenarios. These sensitivities attempt to incorporate identified risks set out in the Principal risks and uncertainties section of this report.

Severe downside sensitivities modelled included a range of scenarios modelling the financial effects of: loss of business from discrete sites, an overall fall in gross margin of 1% across the Group, a fall in Group sales of 3% matched by a corresponding fall in cost of sales of the same amount, and interest rate risk.

The Group is not exposed to vulnerable sectors or vulnerable countries but does have certain key customers, which create risks and uncertainties. These risks and uncertainties are documented and the mitigating actions being taken are covered in detail in the Principal risks and uncertainties section on pages 46 to 55.

On the basis of this forecast and sensitivity testing, the Board has determined that it is reasonable to assume that the Group will continue to operate within the facilities available and will be able to adhere to the covenant tests to which it is subject throughout at least the twelve-month period from the date of signing the financial statements.

Accordingly, these financial statements are prepared on a going concern basis.

Accounting policies for the Company

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). There are no amendments to accounting standards, or IFRIC interpretations, that are effective for the year ended 31 March 2023 which have had a material impact on the Company.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of UK-adopted international accounting standards, but makes amendments where necessary in order to comply with the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

Under Section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- cash flow statement and related notes;
- comparative period reconciliations for share capital, tangible and intangible fixed assets;
- disclosures in respect of transactions with wholly owned subsidiaries;
- disclosures in respect of capital management;
- the effects of new but not yet effective IFRSs;
- an additional balance sheet for the beginning of the earliest comparative period following the reclassification of items in the financial statements;
- disclosures in respect of the compensation of key management personnel; and
- disclosures of transactions with a management entity that provides key management personnel services to the Company.

As the consolidated financial statements include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 Share-based Payments in respect of Group-settled share-basec payments; and
- certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures.

The Company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next financial statements.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Judgements made by the Directors in the application of these accounting policies that have significant effect on the financial statements, and estimates with a significant risk of material adjustment in the next year, are discussed ir note 50.

Notes to the Company financial statements continued

for the year ended 31 March 2023

35 Basis of preparation for the Company continued

Accounting policies for the Company continued

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Company's accounting period beginning on or after 1 April 2022. The following new standards and amendments to standards are mandatory and have been adopted for the first time for the financial year beginning 1 April 2022:

- IAS 16 Property, Plant and Equipment (Amendment): Proceeds before intended use (effective date 1 January 2022);
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendment): Onerous contracts – Costs of Fulfilling a Contract (effective date 1 January 2022);
- IFRS 3 Business Combinations (Amendment): Reference to the Conceptual Framework (effective date 1 January 2022); and
- Annual Improvements to IFRSs (2018-2020 cycle) (effective date 1 January 2022).

These standards have not had a material impact on the Company's financial statements.

a) Measurement convention

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial instruments classified as fair value through the profit or loss, liabilities for cash-settled share-based payments and defined benefit pension plan assets.

b) Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in IFRS 16.

As a lessee

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative standalone prices. However, for the leases of property, the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option, or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Notes to the Company financial statements continued

for the year ended 31 March 2023

35 Basis of preparation for the Company continued
Accounting policies for the Company continued

b) Leases continued

As a lessee continued

The Company presents right-of-use assets that do not meet the definition of investment property in "tangible fixed assets" and lease liabilities in "trade and other creditors – amounts falling due in less than one year" and "creditors – amounts falling due after more than one year" in the balance sheet.

Short-term leases and leases of low-value assets

The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

c) Investments

Fixed asset investments are stated at cost less provision for impairment where appropriate. The Directors consider annually whether a provision against the value of investments on an individual basis is required. Such provisions are charged in the profit and loss account in the year.

d) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Land is not depreciated. The estimated useful lives are between three and twelve years.

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

e) Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

f) Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair values of any plan assets (at bid price) are deducted. The Company determines the net interest on the net defined benefit liability/asset for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability/asset.

The discount rate is the yield at the reporting date on bonds that have a credit rating of at least AA that have maturity dates approximating the terms of the Company's obligations and that are denominated in the currency in which the benefits are expected to be paid.

Remeasurements arising from defined benefit plans comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). The Company recognises them immediately in other comprehensive income and all other expenses related to defined benefit plans in employee benefit expenses in profit or loss.

Notes to the Company financial statements continued

for the year ended 31 March 2023

35 Basis of preparation for the Company continued

Accounting policies for the Company continued

f) Employee benefits continued

Defined benefit plans continued

When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised immediately in profit or loss when the plan amendment or curtailment occurs.

The calculation of the defined benefit obligations is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, the recognised asset is limited to the present value of benefits available in the form of any future refunds from the plan or reductions in future contributions and takes into account the adverse effect of any minimum funding requirements.

The liability in respect of the defined benefit plan is the fair value of the plan assets less the present value of the defined benefit obligation at the balance sheet date, together with adjustments for actuarial gains and losses. Actuarial gains and losses that arise are recognised in full with the movement recognised in the statement of comprehensive income.

The Company is the principal sponsoring employer of a UK Group defined benefit pension plan. As there is no contractual agreement or stated Group policy for charging the net defined benefit cost of the plan to participating entities, the net defined benefit cost of the pension plan is recognised fully by the principal sponsoring employer, which is the Company.

g) Foreign currency

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

h) Financial instruments

The Company uses derivative financial instruments to hedge its exposure to foreign exchange rate risks arising from operational activities. In accordance with its treasury policy, the Company does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at fair value. The gain or loss on remeasurement of fair values is recognised immediately in the income statement. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged. At the year end no derivative financial instruments qualified for hedge accounting.

i) Share-based payments

Share-based payment arrangements in which the Company receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Company.

The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the awards. The fair value of the awards granted is measured using an option valuation model, taking into account the terms and conditions upon which the awards were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Share-based payment transactions in which the Company receives goods or services by incurring a liability to transfer cash or other assets that is based on the price of the Company's equity instruments are accounted for as cash-settled share-based payments. The fair value of the amount payable to employees is recognised as an expense, with a corresponding increase in liabilities, over the period in which the employees become unconditionally entitled to payment. The liability is remeasured at each balance sheet date and at settlement date. Any changes in the fair value of the liability are recognised as personnel expense in profit or loss.

Further disclosure in relation to share-based payments is given in note 27 of the Group financial statements.

j) Dividends

Dividends are only recognised as a liability to the extent that they are declared prior to the year end. Unpaid dividends that do not meet these criteria are disclosed in the note to the financial statements.

k) Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability to the extent that the effect of discounting is material.

Notes to the Company financial statements

continued

for the year ended 31 March 2023

36 Personnel

The average number of employees in the year was 20 (2022: 18). All employees are based in the United Kingdom and are employed by the plc company.

37 Property, plant and equipment

	Land and buildings £000	Plant and equipment £000	Total £000
Cost			
Balance at 31 March 2022	141	182	323
Additions	**–**	**49**	**49**
Balance at 31 March 2023	**141**	**231**	**372**
Depreciation and impairment losses			
Balance at 31 March 2022	22	149	171
Depreciation charge	**32**	**44**	**76**
Balance at 31 March 2023	**54**	**193**	**247**
Carrying amounts			
At 31 March 2022	119	33	152
At 31 March 2023	**87**	**38**	**125**

38 Intangible assets

	Computer software £000
Cost	
Balance at 31 March 2022	1,216
Additions	**3**
Disposals	**(14)**
Balance at 31 March 2023	**1,205**
Amortisation and impairment losses	
Balance at 31 March 2022	1,039
Amortisation charge	**101**
Balance at 31 March 2023	**1,140**
Carrying amounts	
At 31 March 2022	177
At 31 March 2023	**65**

Notes to the Company financial statements continued

for the year ended 31 March 2023

39 Investments in subsidiary undertakings

	Shares in Group undertakings £000
Cost	
Balance at 31 March 2022	150,117
Balance at 31 March 2023	**150,117**
Provisions	
Balance at 31 March 2022	56,322
Impairment	**10,278**
Balance at 31 March 2023	**66,600**
Net book value	
At 31 March 2022	93,795
At 31 March 2023	**83,517**

Value in use models were used to assess the recoverable amount of investments in the material trading subsidiaries. Having entered a period of rationalisation, at 31 March 2023, the investment that the Company holds in the CTP UK entity exceeded the recoverable amount calculated and as such, an impairment of £10.3 million has been recognised.

The key assumptions in this model were cashflow projections covering a three-year period and discount rates. Cash flows beyond the three-year period are extrapolated using an estimated growth rate of 3%. The cash flows were discounted at a pre-tax rate of 10.0% (2022: 6.1%), discount rates are calculated and reviewed annually and are based on the Company's weighted average cost of capital. Changes in income and expenditure are based on expectations of future changes in the market.

The circumstances leading to current year impairment are largely due to the loss of a significant customer contract and the internal rationalisation that has been undertaken during the year. Certain customer contracts have been transferred from CTP Ltd (the CTP UK entity) to the lower cost manufacturer – CTP Czech. Over the coming year, management intend to finalise the transfer pricing arrangements of this transaction and will establish royalty agreements where appropriate. Once this exercise has been undertaken, and the transfer of value can be determined, the Company expects to be able to support a hive-across of the investment carrying value from that in CTP UK to Carclo Platt Nederland (the company which holds the investment in CTP Czech) and as such may be able to recognise a reversal of some, if not all, of this impairment in the accounts of the Company in the future.

Sufficient headroom between recoverable amount and net book value for all other investments was calculated and the Directors were comfortable that any reasonably possible changes to key assumptions would not result in an impairment.

A list of subsidiary undertakings is given in note 33 to the Group financial statements.

Notes to the Company financial statements

continued

for the year ended 31 March 2023

40 Debtors

	2023 £000	2022 £000
Debtors – amounts falling due within one year:		
Amounts owed by Group undertakings	**72,964**	69,091
Other debtors	**268**	164
Prepayments and accrued income	**220**	186
	73,452	69,441
Debtors – amounts falling due after more than one year:		
Amounts owed by Group undertakings	**220**	2,033
	220	2,033

Amounts owed by Group undertakings which fall due within one year are primarily non-interest bearing and repayable on demand.

Amounts owed by Group undertakings which fall due after more than one year bear interest at market interest rates.

Amounts owed by Group undertakings are presented after provision for credit risk.

41 Provisions

	2023 £000	2022 £000
Provisions at the start of the year	**–**	–
Provision established in the period	**302**	–
Provisions used in the period	**–**	–
Provisions at the end of the year	**302**	–
Non-current	**–**	–
Current	**302**	–
	302	–

A provision has been made in the year to 31 March 2023 for legacy health-related claims, classified as an exceptional cost; external advice has been sought where appropriate. The outcome is expected to be known before 31 March 2024.

Notes to the Company financial statements

continued

for the year ended 31 March 2023

42 Trade and other creditors – amounts falling due within one year

	2023 £000	2022 £000
Bank overdrafts	**6,534**	2,407
Trade creditors	**395**	446
Taxation and social security	**80**	54
Lease liabilities	**33**	32
Other creditors	**16**	–
Accruals and deferred income	**1,143**	801
Amounts owed to Group undertakings	**106,169**	104,091
Bank loans	**1,223**	1,331
Other loans	**43**	70
	115,636	109,232

The Group has a UK multi-currency net overdraft facility with a £nil net limit and a £12.5 million gross limit. The overdrafts bear interest at between 2.0% and 4.5% above prevailing UK bank base rates. At 31 March 2023, Carclo plc's overdraft of £6.5 million (2022: £2.4 million) has been recognised within cash and cash deposits when consolidated due to a right of set-off.

Bank loans include £32.5 million (2022: £33.8 million) secured on the assets of the Group. The bank loan facilities are secured by guarantees from certain Group companies and by fixed and floating charges over certain of the assets of a number of the Group's companies.

Additional security is granted by the Company to the bank such that at 31 March 2023, the gross value of the Company's assets secured amounted to £158.1 million (2022: £168.3 million).

Amounts owed to Group undertakings which fall due within one year are non-interest bearing and repayable on demand.

43 Creditors – amounts falling due after more than one year

	2023 £000	2022 £000
Bank loans	**31,227**	32,429
Other loans	**9**	52
Amounts owed to Group undertakings	**6,607**	2,922
Lease liabilities	**62**	75
	37,905	35,478

Amounts owed to Group undertakings which fall due after more than one year bear interest at market interest rates.

Notes to the Company financial statements
continued
for the year ended 31 March 2023

44 Deferred tax assets and liabilities
Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2023 £000	2022 £000	**2023 £000**	2022 £000	**2023 £000**	2022 £000
Tax losses	**–**	669	**–**	–	**–**	669
Other	**283**	283	**–**	–	**283**	283
Deferred tax assets	**283**	952	**–**	–	**283**	952

Deferred tax assets have not been recognised in respect of the following items:

	2023 £000	2022 £000
Tax losses – trading	**5,531**	3,770
Tax losses – capital	**52**	50
Tax losses – non-trading	**551**	312
Employee benefits	**8,624**	6,333
Tangible fixed assets	**142**	137
	14,900	10,602

Deferred tax assets have not been recognised on the balance sheet to the extent that the underlying timing differences are not expected to reverse. The nature of the tax regimes in certain regions in which Carclo operates are such that tax losses may arise even though the business is profitable. This situation is expected to continue in the medium term. A deferred tax charge of £0.7 million has been booked in the income statement at 31 March 2023 as, following rationalisation, latest approved business plans and profitability levels therein for the UK Group cannot support an asset in the medium term, hence the asset on trading losses has been derecognised.

Capital losses will be recognised at the point when a transaction gives rise to an offsettable capital gain; this was not the case at 31 March 2023. Similarly, non-trading losses will only be utilised against future non-trading profits. No such non-trading profits are foreseen at 31 March 2023.

The tax losses at 31 March 2023 are available to carry forward without time restriction.

Notes to the Company financial statements continued
for the year ended 31 March 2023

44 Deferred tax assets and liabilities continued
Movement in deferred tax during the year:

	Balance as at 1 Apr 22 £000	Recognised in income £000	Recognised in equity £000	Balance as at 31 Mar 23 £000
Tax losses	669	**(669)**	**–**	**–**
Other	283	**–**	**–**	**283**
	952	**(669)**	**–**	**283**

Movement in deferred tax during the prior year:

	Balance as at 1 Apr 21 £000	Recognised in income £000	Recognised in equity £000	Balance as at 31 Mar 22 £000
Tax losses	–	669	–	669
Other	218	65	–	283
	218	734	–	952

45 Pension liability
The Group operates a defined benefit UK pension scheme which provides pensions based on service and final pay.

The Company was the sponsoring employer throughout the current and prior period and full disclosures in respect of the plan are given in note 24 of the Group financial statements. Additional security is granted by the Company to the Scheme trustees such that, at 31 March 2023, the gross value of the Company's assets secured amounted to £158.1 million (2022: £168.3 million).

46 Reserves
The Company maintains an employee share ownership plan for the benefit of employees and which can be used in conjunction with any of the Group's share option schemes. As at 31 March 2023, the plan held 3,077 shares (2022: 3,077 shares). The original cost of these shares was £0.003 million (2022: £0.003 million). The cost of the shares was charged against the profit and loss account.

47 Contingent liabilities
The Company has entered into cross-guarantee arrangements relating to the bank borrowings of its UK and India subsidiary operations. The maximum obligation under these arrangements at 31 March 2023 was £nil (2022: £nil).

48 Profit and loss account
The loss after tax for the year dealt with in the accounts of the Company amounts to £15.828 million (2022: £1.988 million profit) which, after dividends of £nil (2022: £nil), gives a retained loss for the year of £15.828 million (2022: £1.988 million profit).

Notes to the Company financial statements continued

for the year ended 31 March 2023

49 Related parties

The Company has a related party relationship with its subsidiaries (see note 33), its Directors and executive officers and the Group pension scheme. There are no transactions that are required to be disclosed in relation to the Group's 60% dormant subsidiary Platform Diagnostics Limited.

Transactions with related parties are set out in note 32 of the Group financial statements.

In addition to this:

- interest payable to Group companies during the period was £0.5 million (2022: £0.3 million) and interest receivable from Group companies during the period was £0.1 million (2022: £0.1 million);
- royalties were received from Group companies during the period totalling £1.8 million (2022: £1.6 million);
- management fee income was received from Group companies during the period totalling £1.1 million (2022: £1.2 million); and
- dividends were received from Group companies during the period totalling £0.8 million (2022: £1.7 million).

During the prior period the Company's lending bank received £0.5 million and the Company received a further £0.2 million in respect of distributions made by the administrators of Wipac Ltd following the Company's disposal of Wipac Ltd as a subsidiary on 20 December 2020. £0.6 million was prepaid against the term loan and, in accordance with the facilities agreement, £0.1 million was retained by the Company. No amounts have been received in the year ended 31 March 2023.

Remuneration of the Directors, who are considered to be the key management personnel of the Company, is disclosed in the audited part of the Directors' remuneration report on pages 76 to 96.

50 Accounting estimates and judgements

The preparation of the financial statements in conformity with FRS 101, requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

The estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. These estimates and assumptions form the basis for making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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 revision and future periods if the revision affects both current and future periods.

The following are the critical judgements and key sources of estimation uncertainty that the Directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements. These should be read in conjunction with the significant accounting policies provided in the notes to the financial statements.

Going concern

Key judgements

Management has exercised judgement over the likelihood of the Company to be able to continue to operate within its available facilities and in accordance with its covenants for at least twelve months from the date of signing these financial statements. This determines whether the Company should operate the going concern basis of preparation for these financial statements.

Notes to the Company financial statements continued

for the year ended 31 March 2023

50 Accounting estimates and judgements continued

Pension assumptions

Note 24 contains information about management's estimate of the net liability for defined benefit obligations and their risk factors. The pension liability at 31 March 2023 amounts to £34.5 million (2022: £26.0 million).

Key sources of estimation uncertainty

The value of the defined benefit pension plan obligation is determined by long-term actuarial assumptions. These assumptions include discount rates, inflation rates and mortality rates. Differences arising from actual experience or future changes in assumptions will be reflected in the Group's consolidated statement of comprehensive income. The Group exercises judgement in determining the assumptions to be adopted after discussion with a qualified actuary. Details of the key actuarial assumptions used and of the sensitivity of these assumptions are included within note 24.

In the prior year, the Scheme introduced a right for members to Pension Increase Exchange ("PIE"). Having taken actuarial advice, the executive management exercised judgement that, similar to the Bridging Pension Option adopted in the year to 31 March 2021, 40% of members would take the PIE option at retirement. There is no change to either assumption in the current year. Any change in estimate would be recognised as remeasurement gains/(losses) through the consolidated statement of comprehensive income.

Valuation of investments in subsidiary undertakings

Note 39 contains information about management's estimates of the recoverable amount of investments in subsidiary undertakings and their risk factors.

Key judgements

Management has exercised judgement over the underlying assumptions within the valuation models. These are key factors in their assessment of whether there is any impairment in these investments.

As set out in more detail in note 39, the recoverable amounts are based on value in use and fair value less costs of disposal calculations. The use of the value in use method requires the estimation of future cash flows and the choice of a discount rate in order to calculate the present value of the future cash flows. The use of the fair value less costs to sell method requires the estimation of the fair value of the investment in the subsidiary undertaking and of associated costs of disposal.

Recognition of deferred tax assets

Note 44 contains information about the deferred tax assets recognised in the statement of financial position.

Key judgements

Management has exercised judgement over the level of future taxable profits against which to relieve the Company's deferred tax assets. On the basis of this judgement, £nil deferred tax assets have been recognised for tax losses at the period end (2022: £0.7 million).

Classification and recoverability of amounts due from Group undertakings

Note 40 presents amounts due from Group undertakings falling due within one year and after more than one year.

Key judgements

Management has applied judgement when classifying amounts due from Group undertakings. Those presented as falling due within one year are primarily non-interest bearing and are repayable on demand. Receivable balances with other Group entities are reviewed for potential impairment based on the ability of the counterparty to meet its obligations. No impairment losses were recognised in the year.

Five year summary

	2023 £000	2022 £000	2021 £000	2020 £000	2019[1] £000
Group total:					
Revenue	**143,445**	128,576	107,564	146,288	144,851
Underlying operating profit	**5,939**	6,096	4,840	4,365	1,315
COVID-19-related US government grant income	**–**	2,087	–	–	–
Operating profit before exceptional items	**5,939**	8,183	4,840	4,365	1,315
Exceptional items	**(4,710)**	721	4,438	(8,779)	(13,908)
Operating profit/(loss)	**1,229**	8,904	9,278	(4,414)	(12,593)
Net financing charge	**(3,749)**	(2,989)	(2,659)	(2,585)	(2,061)
(Loss)/profit before tax	**(2,520)**	5,915	6,619	(6,999)	(14,654)
Income tax expense	**(1,437)**	(809)	(457)	(1,449)	(3,978)
(Loss)/profit after tax but before loss on disposal of discontinued operations	**(3,957)**	5,106	6,162	(8,448)	(18,632)
Underlying operating profit	**5,939**	6,096	4,840	4,365	1,315
Add back: Amortisation of intangible assets	**211**	203	206	172	279
Underlying earnings before interest, tax and amortisation ("EBITA")	**6,150**	6,299	5,046	4,537	1,594
Add back: Depreciation of property, plant and equipment	**7,815**	6,825	5,774	6,765	5,260
Underlying earnings before interest, tax, depreciation and amortisation ("EBITDA")	**13,965**	13,124	10,820	11,302	6,854
Continuing operations:					
Revenue	**143,445**	128,576	107,564	110,506	105,338
Underlying operating profit	**5,939**	6,096	4,840	7,313	6,390
COVID-19-related US government grant income	**–**	2,087	–	–	–
Operating profit before exceptional items	**5,939**	8,183	4,840	7,313	6,390
Exceptional items	**(4,710)**	721	4,490	(5,470)	(4,507)
Operating profit	**1,229**	8,904	9,330	1,843	1,883
Net financing charge	**(3,749)**	(2,989)	(2,659)	(2,388)	(1,891)
(Loss)/profit before tax	**(2,520)**	5,915	6,671	(545)	(8)

1. The comparative information for 2019 has been re-presented due to a discontinued operation, namely the LED Technologies segment comprising two Wipac businesses which was disposed of during the year ending 2020.

Five year summary
continued

	2023 £000	2022 £000	2021 £000	2020 £000	2019[1] £000
Underlying operating profit from continuing operations	**5,939**	6,096	4,840	7,313	6,390
Add back: Amortisation of intangible assets from continuing operations	**211**	203	206	172	176
Underlying earnings before interest, tax and amortisation ("EBITA") from continuing operations	**6,150**	6,299	5,046	7,485	6,566
Add back: Depreciation of property, plant and equipment from continuing operations	**7,815**	6,825	5,774	5,951	4,344
Underlying earnings before interest, tax, depreciation and amortisation ("EBITDA") from continuing operations	**13,965**	13,124	10,820	13,436	10,910

	2023 £000	2022 £000	2021 £000	2020 £000	2019[1] £000
Underlying operating profit margin	**4.1%**	4.7%	4.5%	3.0%	0.9%
Underlying operating profit margin from continuing operations	**4.1%**	4.7%	4.5%	6.6%	6.1%
Return on sales (underlying EBITA margin)	**4.3%**	4.9%	4.7%	3.1%	1.1%
Return on sales (underlying EBITA margin) from continuing operations	**4.3%**	4.9%	4.7%	6.8%	6.2%
Effective tax rate	**-57.0%**	12.2%	5.8%	-14.6%	-27.2%
Underlying effective tax rate	**88.0%**	26.0%	21.0%	27.8%	19.2%
(Loss)/earnings per share[2]	**-5.4p**	7.9p	10.1p	-15.5p	-25.4p
Underlying earnings/(loss) per share[3]	**0.4p**	3.1p	2.4p	0.4p	-2.7p
Net debt	**(34,360)**	(32,405)	(27,596)	(27,357)	(38,481)
Capital employed (equity + net debt)	**45,966**	56,821	35,507	36,088	50,748
Average capital employed (equity + net debt)	**51,394**	46,164	35,798	43,418	67,122
Return on capital employed (excluding pension liabilities)	**7.3%**	7.8%	6.6%	5.0%	1.2%
Capital expenditure as a multiple of depreciation	**0.7x**	1.4x	1.8x	1.5x	1.5x
Average number of employees in year	**1,116**	1,062	1,048	1,475	1,501

1. The comparative information for 2019 has been re-presented due to a discontinued operation, namely the LED Technologies segment, comprising two Wipac business which was disposed of during the year ending 2020.
2. (Loss)/earnings per share is calculated based on profit after tax, attributable to equity holders of the parent company, including discontinued operations and is after exceptional and separately disclosed items.
3. Underlying earnings/(loss) per share is calculated based on profit after tax, attributable to equity holders of the parent company, including discontinued operations and is before exceptional and separately disclosed items.

Information for shareholders

(a) Reconciliation of non-GAAP financial measures

	Notes	2023 £000	2022 £000
(Loss)/profit for the period		**(3,957)**	5,799
Add back: Profit on discontinued operations, net of tax	4	**–**	(693)
Statutory (loss)/profit after tax from continuing operations		**(3,957)**	5,106
Add back: Income tax expense from continuing operations	12	**1,437**	809
(Loss)/profit before tax from continuing operations		**(2,520)**	5,915
Add back: Net financing charge from continuing operations	11	**3,749**	2,989
Operating profit from continuing operations		**1,229**	8,904
Add back: Exceptional items from continuing operations	9	**4,710**	(721)
Operating profit before exceptional items from continuing operations		**5,939**	8,183
Less: COVID-19-related US government grant income		**–**	(2,087)
Underlying operating profit from continuing operations		**5,939**	6,096
Add back: Amortisation of intangible assets from continuing operations	15	**211**	203
Underlying earnings before interest, tax and amortisation ("EBITA") from continuing operations		**6,150**	6,299
Add back: Depreciation of property, plant and equipment from continuing operations	16	**7,815**	6,825
Underlying earnings before interest, tax, depreciation and amortisation ("EBITDA") from continuing operations		**13,965**	13,124
(Loss)/profit before tax from continuing operations		**(2,520)**	5,915
Add back/(less): Exceptional items from continuing operations	9	**4,710**	(721)
Less: COVID-19-related US government grant income		**–**	(2,087)
Underlying profit before tax from continuing operations		**2,190**	3,107
Income tax expense from continuing operations	12	**1,437**	809
Add back: Exceptional tax expense from continuing operations		**491**	–
Group underlying tax expense from continuing operations		**1,928**	809
Group statutory effective tax rate from continuing operations		**-57.0%**	13.7%
Group underlying effective tax rate from continuing operations		**88.0%**	26.0%

Information for shareholders
continued

(a) Reconciliation of non-GAAP financial measures continued

	Notes	2023 £000	2022 £000
Cash at bank and in hand	20	**10,354**	12,347
Loans and borrowings – current	22	**(5,046)**	(2,948)
Loans and borrowings – non-current	22	**(39,668)**	(41,804)
Net debt		**(34,360)**	(32,405)
Add back: Lease liabilities	22	**11,870**	10,870
Net debt excluding lease liabilities		**(22,490)**	(21,535)
Information on consolidated statement of cash flows			
Net cash from operating activities from continuing operations		**3,772**	2,969
Net cash used in investing activities		**(809)**	(4,149)
Less: Net cash from investing activities from discontinued operations		**–**	(693)
Net cash used in investing activities from continuing operations		**(809)**	(4,842)
Net cash used in financing activities from continuing operations		**(4,675)**	(2,493)

Information for shareholders
continued

(b) Share price history
Share price per 5 pence ordinary share at close of business 31 March 1982: 11.6 pence

Calendar year	Low	High
2008	47.5p	96.0p
2009	48.5p	150.5p
2010	133.5p	241.5p
2011	239.0p	349.0p
2012	287.5p	503.0p
2013	257.0p	501.0p
2014	85.25p	292.5p
2015	87.0p	169.75p
2016	106.75p	169.0p
2017	120.0p	180.0p
2018	77.25p	127.5p
2019	10.3p	81.5p
2020	3.75p	23.0p
2021	15.15p	71.0p
2022	12.0p	41.0p
2023	**10.8p**	**15.8p**

(c) Share price information
Share price information can be found on the internet at **www.carclo-plc.com**

(d) Further information on Carclo plc
Further information on Carclo plc can be found on the internet at **www.carclo-plc.com**

Shareholder enquiries

For all enquiries please contact Equiniti, our Share Registrars, who are available to answer any queries you have in relation to your shareholding.

Online:
A range of help is available online at **help.shareview.co.uk** – from here you will be able to securely email Equiniti.

By phone:
From the UK, call 0371 384 2249.

From overseas, call +44 (0) 371 384 2249. Lines are open between 8.30am and 5.30pm, Monday to Friday (excluding public holidays in England and Wales).

By post:
Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA.

Equiniti also provide an online service for shareholders. To manage your shareholding online please see Equiniti's Shareview service at **www.shareview.co.uk**.

If you are not already registered, to view your shareholding you will need to set up a portfolio by registering at **www.shareview.co.uk**. You will need your shareholder reference number. Setting up a portfolio will allow you to securely access your holdings online at your own convenience whenever and wherever you want to. You will have access to a full range of online services. These can include:

- view holdings and indicative price and valuation;
- view movements on your holdings;
- view dividend payment history;
- register and change bank mandate instructions;
- change your address details;
- sign up for electronic communications;
- buy and sell shares online; and
- download and print shareholder forms.

Glossary

Cash conversion rate
Cash generated from operations divided by EBITDA as defined below

Compound annual growth rate ("CAGR")
The geometric progression ratio that provides a constant rate of return over a time period

Constant currency
Prior year translated at the current year's average exchange rate. Included to explain the effect of changing exchange rates during volatile times to assist the reader's understanding

EBITDA
Profit before interest, tax, depreciation and amortisation

Fixed asset utilisation ratio
Revenue from continuing operations divided by tangible fixed assets

Group capital expenditure
Non-current asset additions

Net bank interest
Interest receivable on cash at bank less interest payable on bank loans and overdrafts. Reported in this manner due to the global nature of the Group and its banking agreements

Net debt
Cash and cash deposits less loans and borrowings. Used to report the overall financial debt of the Group in a manner that is easy to understand

Net debt excluding lease liabilities
Net debt, as defined above, excluding lease liabilities. Used to report the overall non-leasing debt of the Group in a manner that is easy to understand

Operating profit before exceptional items
Operating profit adjusted to exclude all exceptional items

Operational gearing
Ratio of fixed overheads to sales

Return on capital employed (excluding pension liabilities)
Return on capital employed measures the underlying operating profit for the Group, including discontinued operations, as a percentage of average capital employed, calculated as the average of the opening equity plus net debt and pension liabilities, and closing equity plus net debt and pension liabilities

Return on sales
Underlying operating profit, as defined below, from continuing operations, as a percentage of revenue from continuing operations

Underlying
Adjusted to exclude all exceptional and separately disclosed items

Underlying earnings per share
Earnings per share adjusted to exclude all exceptional and separately disclosed items

Underlying EBITDA
Profit before interest, tax, depreciation and amortisation adjusted to exclude all exceptional and separately disclosed items

Underlying operating profit
Operating profit adjusted to exclude all exceptional and separately disclosed items

Underlying profit before tax
Profit before tax adjusted to exclude all exceptional and separately disclosed items

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Financial calendar

Annual General Meeting	31 August 2023
Interim results for half year ending 30 September 2023	November 2023
Preliminary results for year ending 31 March 2024	June 2024
Annual Report for year ending 31 March 2024	mailed July 2024
Annual General Meeting	August/September 2024

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