



carclo



PREPARING FOR GROWTH

Carclo plc

Annual report and accounts 2021

OUR PURPOSE

To be a trusted and collaborative provider of value-adding engineered solutions for the medical, optical and aerospace industries, creating value for all our stakeholders.

OUR VALUES



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OUR HIGHLIGHTS

Revenue from continuing operations (£m)

£107.6m

2020:
£110.5m

Underlying operating profit¹ (£m)

£4.8m

2020:
£7.3m

Underlying earnings per share from continuing operations (p)

2.4p

2020:
4.9p

Statutory operating profit (£m)

£9.3m

2020:
£1.8m

Net debt excluding lease liabilities (£m)

£20.5m

2020:
£22.1m

Net debt (£m)

£27.6m

2020:
£27.4m

- Resilient revenue performance despite COVID-19
 - Revenue from continuing operations decreased by 2.7% to £107.6 million (2020: £110.5 million)
 - Underlying operating profit from continuing operations decreased by £2.5 million to £4.8 million (2020: £7.3 million)
- Net cash from operating activities from continuing operations was £8.4 million (2020: £6.9 million)
- Statutory operating profit from continuing operations increased to £9.3 million (2020: £1.8 million)
- Net exceptional gain in the year of £4.5 million, reflects a £6.5 million pension credit, primarily from the introduction of flexible early retirement benefits, offset by £2.0 million restructuring costs
- Group stabilised and simplified after LED Technologies business disposal
- New Board recruited
- Three-year agreement on financing and pension contributions provides a stable platform for the business to move forward
- Continuing to invest in support of strong growth momentum in the Technical Plastics business

Forward-looking statements

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

Alternative performance measures

Alternative performance measures are defined in the glossary on page 151. A reconciliation to statutory numbers is included on page 149. The Directors believe that alternative performance measures provide a more useful comparison of business trends and performance. The term "underlying" is not defined under IFRS and may not be comparable with similarly titled measures used by other companies.

1. Underlying operating profit is defined as operating profit adjusted to exclude all exceptional items. A reconciliation to statutory figures is given on page 149.

AT A GLANCE

Carclo plc is a global manufacturer, principally of fine tolerance injection moulded plastic parts for the medical, diagnostics, electronics, optics and automotive safety markets.

WHAT WE DO

OUR DIVISIONS

TECHNICAL PLASTICS DIVISION

Carclo Technical Plastics is a leading global manufacturer of fine tolerance injection moulded plastic parts for the medical, diagnostics, electronics, optics and automotive safety markets.



AEROSPACE DIVISION

The Aerospace division is a market leader in cable assemblies and specialist machined parts to European commercial and military aerospace markets.



WHERE WE OPERATE




GLOBAL LOCATIONS

Our business operates across three different continents to provide local support to our global customers.

 **Bruntons Aero Products Ltd**
Musselburgh, Scotland, UK

 **Carclo Technical Plastics Ltd**
Mitcham, UK

 **Carclo Technical Plastics Ltd**
Aylesbury, UK

 **CTP Carrera Inc.**
Latrobe, Pennsylvania, USA

 **Jacottet Industrie SAS**
Chartres, France


 **Carclo Technical Plastics – Brno, s.r.o.**
Brno, Czech Republic

 **CTP Carrera Inc.**
Tucson, Arizona, USA

 **Carclo Technical Plastics Pvt Ltd**
Bangalore, India

 **CTP Carrera Inc.**
Export, Pennsylvania, USA

 **CTP Taicang Co Ltd**
Taicang P.R. China

 **CTP Carrera Inc.**
Derry, New Hampshire, USA

EXECUTIVE CHAIRMAN'S STATEMENT



“

Despite a challenging period for the Group, the continuing businesses performed strongly in 2020/21 and ended the year on an improving trend. We are encouraged by our trading performance during the first quarter and the Board expects to see good progress in the current year.

Nick Sanders
Executive Chairman

As for many companies, the last year has been one of disruption and uncertainty for Carclo.

The COVID-19 pandemic significantly impacted our businesses around the world, and the aftermath of the exit from our LED operations in the prior year continued to affect the Group.

Our priorities have been to ensure the safety and wellbeing of our people and the communities that we operate in and to safeguard the long-term sustainability of the business.

Despite these challenges, I am pleased to report that the Group has restructured, refinanced and created a streamlined and simplified business model. It has stabilised its operations and our performance is steadily improving.

Our largest division, Carclo Technical Plastics (“CTP”) recovered well despite temporary plant closures in the first quarter due to the pandemic with our customers and also suppliers experiencing significant operational disruption throughout the year. Notwithstanding these factors, I am pleased to report that CTP total sales were broadly the same as the prior year – a tremendous achievement by the team in a very challenging economic environment.

Our Aerospace division was severely impacted by the downturn in the sector as a whole resulting in a significant reduction in order intake throughout the year. In response we rapidly adjusted our cost base to mitigate the impact of reduced post-COVID volumes and applied the government support schemes available to the business. These actions resulted in a positive cash generation for the division despite the worst economic conditions in the sector for decades, and the business remained profitable, albeit at a lower level than in prior years.

The residual impact of the divestment of the Wipac division and related restructuring, refinancing and rationalisation of activities continued to be felt in the first half of the year, consuming significant Board and management time as well as incurring a high level of advisor costs. This is now behind us, with the second half of the year benefiting from the Group's new streamlined and simplified structure and a clear focus on operational and strategic improvement.

During the second half of the year, following the implementation of the new tripartite agreement, the Group has embarked on a series of proactive restructuring and rationalisation activities. These are expected to benefit the Group through the restructuring of inter-company arrangements, divisionalising and decentralising its structures and activities for greater cost-effectiveness. The establishment of the new tripartite agreement has fostered a renewed and close working relationship with the pension trustees on strategic initiatives to reduce the pension scheme deficit while preserving members' benefits.

Progress has already been made in the year in establishing flexible early retirement options for members and further benefits from these positive strategic initiatives are expected to accrue in 2021/22.

In the second half of the year we introduced rigorous and regular business review processes, encompassing a broader range of new financial and non-financial KPIs. Focus is maintained and progress tracked on a weekly as well as monthly basis through financial and operational management meetings.

As previously reported, the Group concluded a tripartite agreement with its lending bank and pension trustees on 14 August 2020. This agreement provides lending facilities through to 31 July 2023 and an agreement not to alter the contributions to the Group's pension funds for the same period. There is now a focus on strong communications between bank, pension trustees and Company management, with quarterly tripartite meetings to review progress and performance, which is greatly strengthening the understanding and relationship between the three parties. This has provided a solid foundation for the business to move forward and to develop strategies for each of its divisions.

These strategies are focused on delivering profitable organic growth and operational improvement, supported by targeted investment. CTP is already starting to make solid progress against these objectives having secured a number of new contracts in the medical sector, while our focus on cash generation along with working capital improvement are starting to deliver results and facilitate growth. Recovery in the Aerospace business will take longer as we expect activity levels in this sector will remain below 2019 levels for the next three to four years. However, the overall impact on the Group business is low due to the much smaller scale of the Aerospace division.

Financial performance

Group revenue from continuing operations decreased by 2.7% to £107.6 million (2020: £110.5 million), underpinned by a strong divisional performance from CTP in the context of the COVID-19 pandemic. Revenue including discontinued operations decreased by 26.5% to £107.6 million (2020: £146.3 million).

Group underlying operating profit from continuing operations was 33.8% lower at £4.8 million (2020: £7.3 million) with basic underlying earnings per share from continuing operations 51.0% lower at 2.4 pence (2020: 4.9 pence). Statutory basic earnings per share was 10.1 pence (2020: 15.5 pence loss).

The Group's net debt including IFRS 16 lease liabilities increased £0.2 million to £27.6 million (2020: £27.4 million) with positive operational cash generation from continuing operations and further proceeds from the disposal of the discontinued LED Technologies operation offsetting capital expenditure which was funded by a mixture of cash and lease liabilities.

The underlying operating profit margin from continuing operations decreased to 4.5% (2020: 6.6%), reflecting reduced activity levels in the Aerospace business and increased central costs due to PPF levy cost increases and foreign exchange movements. Underlying earnings before interest, taxation, depreciation and amortisation from continuing operations decreased to £10.8 million (2020: £13.4 million).

Return on capital employed increased from 10.1% to 13.5%.

Statutory operating profit including discontinued operations was £9.3 million (2020: £4.4 million loss) with statutory profit before tax and profit on disposal of discontinued operations of £6.6 million (2020: £7.0 million loss).



EXECUTIVE CHAIRMAN'S STATEMENT continued

COVID-19

The pandemic inevitably had a significant impact on our business throughout the year. However, our CTP division broadly maintained total sales year on year despite the downturn. The Group has absorbed the full impact of COVID-19 within its trading results without setting aside any provisions or charges as exceptional items.

Our priority has been to keep our people and communities safe whilst maintaining business operations as far as possible. Measures to protect our employees have been regularly reviewed and updated and best practice shared across our sites around the world. The wearing of personal protective equipment, temperature testing, social distancing in the workplace and working from home measures have all been introduced as we adapted and changed to the evolving situation.

The pandemic not only impacted our businesses but the sectors in which they operate, and these impacts are detailed further in the annual report.

Our people

I am proud of the way that the Carclo team worldwide has responded to the pandemic and I would like to thank them all for their efforts under the most challenging of conditions.

Our people are of course our greatest strength and in this year we have initiated work to strengthen our commitment to the ongoing development of our teams across each country in which we operate.

New apprenticeship and employee development accreditation schemes have been launched in our US operations and similar initiatives will be rolled out across the Group in 2021/22.

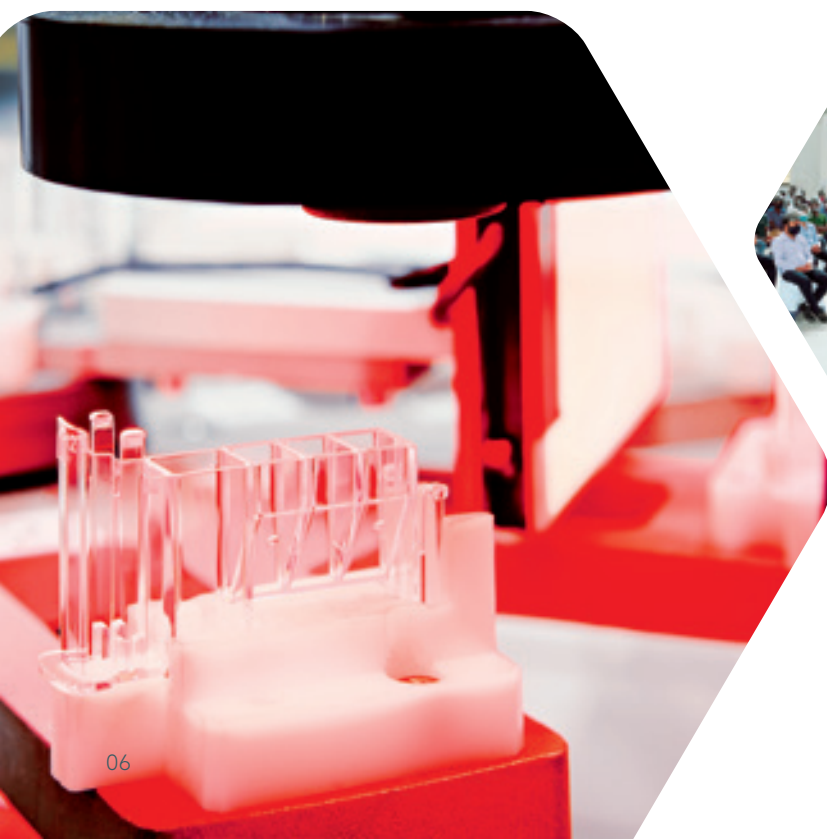
As well as training and career development opportunities, work has begun on providing health and wellbeing support for our employees and I look forward to reporting more on this in future periods. Some great examples of best practice have emerged and our intent is to implement these more broadly around the Group.

We are also increasing our focus on workforce diversity to ensure that we attract and retain the best people wherever we operate.

Board changes

Peter Slabbert and David Toohey indicated their intention not to seek re-election as Non-Executive Directors after both serving the Group over the last six years, and they retired from the Board on 31 March 2021 and 30 April 2021 respectively. I would like to thank both Peter and David for their contribution to the business.

I am pleased that we have been able to recruit Eric Hutchinson and Frank Doorenbosch to the Board. They bring a wealth of business and specific industry experience that will be invaluable as we execute our strategies going forward. Eric was appointed on 7 January 2021 and became Chair of the Audit Committee in March 2021, taking over from Peter Slabbert. Frank was appointed on 1 February 2021, and took over as Chair of the Remuneration Committee in April 2021 following David's departure.



I was appointed as a Non-Executive Director and Chairman-elect on 18 August 2020. Joe Oatley held the position of interim Non-Executive Chairman until 30 September 2020 when I became Non-Executive Chairman and following a restructuring, subsequently became the Executive Chairman on 5 October 2020, following Antony Collins stepping down as interim CEO. Joe reverted to his role as a Non-Executive Director and Chairman of the Nomination Committee and was also appointed as Senior Independent Director on 30 September 2020. I would like to thank Joe for taking on these additional responsibilities during some difficult times.

Following Matt Durkin-Jones' departure as interim CFO on 17 December 2020, on 1 March 2021 Phil White joined the Board as the permanent CFO after a short period as interim CFO. Phil also brings a wealth of knowledge and experience to the business and he is working alongside me on driving improvements across the Group.

I am pleased that after a period of difficulty for the Group culminating in the disposal of the Wipac division, we have recruited a strong new Board with very relevant experience to guide the business forward.

Health, safety and environment

In parallel to the measures taken to manage the impact of the pandemic, the business has continued to work on continually improving the health and safety performance of our operations and I am pleased to report a 46% reduction in the number of incidents across the Group and a 20% reduction in lost time accidents. Further development of our health and safety strategies will continue in the current financial year.

Our Environmental policy has been enhanced and further improvement measures are planned as part of our overall ESG approach.

Dividend

Given the financial performance and position of the Group, coupled with restrictions on the payment of dividends contained within the refinancing agreement and the lack of distributable reserves, the Board is not recommending the payment of a dividend for 2020/21 (2020: £nil).

Governance

Since joining the Board in August 2020, I have observed the Board's focus on maintaining a strong corporate governance framework and culture throughout the Group. The Board is fully supportive of the principles laid down in the UK Corporate Governance Code and continues to review its systems, policies and procedures that support the Group's sustainability and governance practices.

Brexit

As a result of the protracted and last-minute negotiations between UK and EU governments on the terms of the UK's exit from the EU, some operational disruption was experienced by both the CTP and Aerospace businesses. The main impacts were delays in shipping goods across borders, with shipping times increasing in some cases from three days to three weeks. This was particularly acute in January and whilst the impact diminished somewhat in the following months, shipping times remain significantly longer than was the case pre-Brexit. In addition to delays, shipping costs have also increased and this appears to be a permanent reset of the market. However, we do not consider Brexit to have had a material impact on the business to date.

Pensions

The management team has worked closely with the pension trustees to establish a positive and proactive working relationship with the common aim of maintaining scheme benefits whilst reducing the scheme deficit over time. In addition to the substantial company contributions, the pension trustees during the year have worked with the Company management and initiated a range of measures on investment strategy and pension offerings to scheme members. Specifically, this included the introduction of a Bridging Pension Option whereby scheme members may opt to start taking pensions payments prior to full retirement, providing greater flexibility of pensions choice to members. The management team and pension trustees are continuing to work collaboratively to identify further opportunities for improvement.

EXECUTIVE CHAIRMAN'S STATEMENT continued

Divisional review

Carclo Technical Plastics ("CTP")

Despite the challenges presented by the pandemic the CTP division performed well.

In the early part of the financial year the division experienced significant disruption through employee absence, customer shutdowns and supply chain delays. The management quickly introduced protocols to protect our employees and adapted flexible working patterns to maintain production through the most severe periods.

As a result of CTP's reputation for delivery and quality, the division secured three new large medical customers. Two of these customers operate in the diagnostic field and the other in pharmaceuticals. Demand for new COVID products was high and is expected to remain so for some time, whilst demand for some non-COVID medical products reduced as a result of treatments being delayed.

As a result of these new business wins, demand for new tooling increased over the prior year and is an encouraging leading indicator of future growth. Investment in new technology moulding machines also continued at a high level as the division gears up for increased demand for medical and diagnostic products (both COVID and non-COVID related).

As well as securing new customers, the division also saw increased demand from existing customers in the medical sector.

Overall demand for optical products slowed in the first half due to the impact of the pandemic on large building projects but this was partially offset by increased activity in the aftermarket and home improvement sector. Sales improved in the second half as markets began to recover. The division also developed a number of new products for the optical sector which will be released in 2021/22.

Aerospace

In common with much of the sector, the impact of the pandemic on our Aerospace business has been significant. As a result of the steep reduction in commercial aerospace activity in particular, the business experienced a large reduction in orders in the first quarter and this situation persisted for the remainder of the financial year. In response to the crisis the management team took immediate action to reduce costs and to take the benefit of government support schemes in both the UK and France. As a result of this action the business has remained profitable and cash generative throughout the year in the face of an unprecedented aerospace sector downturn post-COVID.

A range of actions have been implemented to find new growth opportunities both within the aerospace sector and in other industrial sectors and these show some potential for the future.

While it is anticipated that the recovery of sales to pre-pandemic levels will take some years to achieve, the overall impact on the Group as a whole is less significant due to the lower contribution to Group sales and therefore net income from the Aerospace division.

Strategy

The Group's strategy is to focus on being the supplier of choice in our core markets, which will deliver sustainable growth in earnings.

Further planning work has been completed in both operating divisions to underpin the achievement of this strategic goal and action plans have been defined and launched.

Each division will become "standalone" and will have the resources to operate independently of central functions as far as possible.

The central team will focus on Group strategy, capital allocation, finance, IT and governance and will work with the pension trustees to reduce the current deficit in the Group defined benefit pension funds.

CTP will continue to focus on its core markets of medical, diagnostics, electronics, optics and automotive safety, with the objective of diversifying its customer base in these sectors in each of the regions in which we operate.

This will be underpinned by further investment in capital equipment with an emphasis on new technology and increased automation and by a rigorous operational improvement plan.

This includes projects initiated in the Aerospace division to win business with new customers in the aerospace and other safety-critical industries.



Nick Sanders

Executive Chairman

29 June 2021

OUR PROACTIVE ACTIONS ON COVID-19

As a global business, Carclo has made its top priority against an ongoing pandemic background, to be to look after the health and wellbeing of our employees and related communities while maintaining business performance as far as possible.

The Group has addressed the impact of COVID-19 rapidly, carefully and proactively, through effective communication, guidance, support and guidelines for our employees and site visitors; through regular dialogue with our customers and suppliers; through engagement with our communities, regulators and governments; and by taking appropriate action to maintain a robust financial position.

Our divisions quickly established procedures in consideration of all stakeholder interests, and to ensure we could implement appropriate plans to protect the health, safety and wellbeing of our employees, whilst continuing to serve our customers.

Impact

The impact to Carclo, to date, has been centred around:

Trading performance

- All of Carclo's operating regions have been affected to some extent by temporary shutdowns or restricted working hours and periods as and when required under local COVID-19 government guidelines, and as appropriate in accordance with Carclo's own health and safety protocols to support and protect the health and wellbeing of its employees and people on site.
- Carclo's customers, suppliers and extended supply chain similarly have been severely impacted by the pandemic, and continuous review and liaison has been sustained to optimise working together to keep all business channels working mutually effectively.

- The Group has availed itself at local levels of government and funding support available related to COVID-19 and a summary is set out below under "Our financial position".
- The overall financial impact on trading cannot be quantified specifically due to the subjective nature of comparing with normal trading, but both Group sectors of CTP and Aerospace have been impacted, particularly Aerospace, where the market is starting to recover but is expected to take at least two years currently to recover to more normal levels of trading.
- In the year, CTP underlying operating profit decreased by 0.4% to £9.2 million (2020: £9.3 million) and Aerospace underlying operating profit decreased by 66.7% to £0.6 million from £1.7 million.
- In the face of the significant impact of the COVID-19 pandemic across world markets and employment, the resilience of the operating results from the post-COVID-19 countermeasures rapidly, carefully and effectively taken, has been very encouraging, particularly in the Aerospace market, which suffered unprecedented setbacks from the consequent restrictions on air travel.
- The COVID support within these results recorded has been £0.7 million in grants received for the year, and £2.1 million since the year end in the form of US Stimulus Loans, since forgiven and converted into grant status.

Supply chain

- Ensuring there was a secondary source for all products/services in place, maintained regular contact and monitoring of delivery performance, and on critical items an increased safety stock was maintained.
- Supply chains providing raw materials and packaging have been disrupted due to labour shortages and online shopping behaviours. Significant impact in logistics as shipping providers struggle with people shortages and shipping port capacity unbalanced.

Employee homeworking

- Employees who were able to work safely from home continued to do so throughout the period of the pandemic.

COVID-19 guideline cost

- The Group has absorbed within its underlying operating results all COVID-19 costs incurred taken to protect the workforce and site visitors. These costs include all costs incurred to ensure adherence to global guidelines (office reconfigurations, sanitiser, PPE, etc.). Equally, all financial support where received by local government bodies has been absorbed within underlying operating results on the basis that a quantification of the net underlying financial impact would be too subjective.

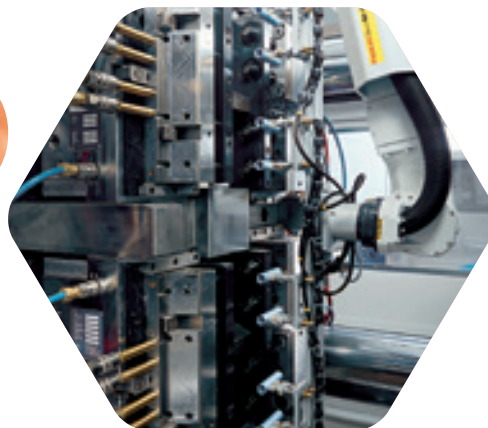
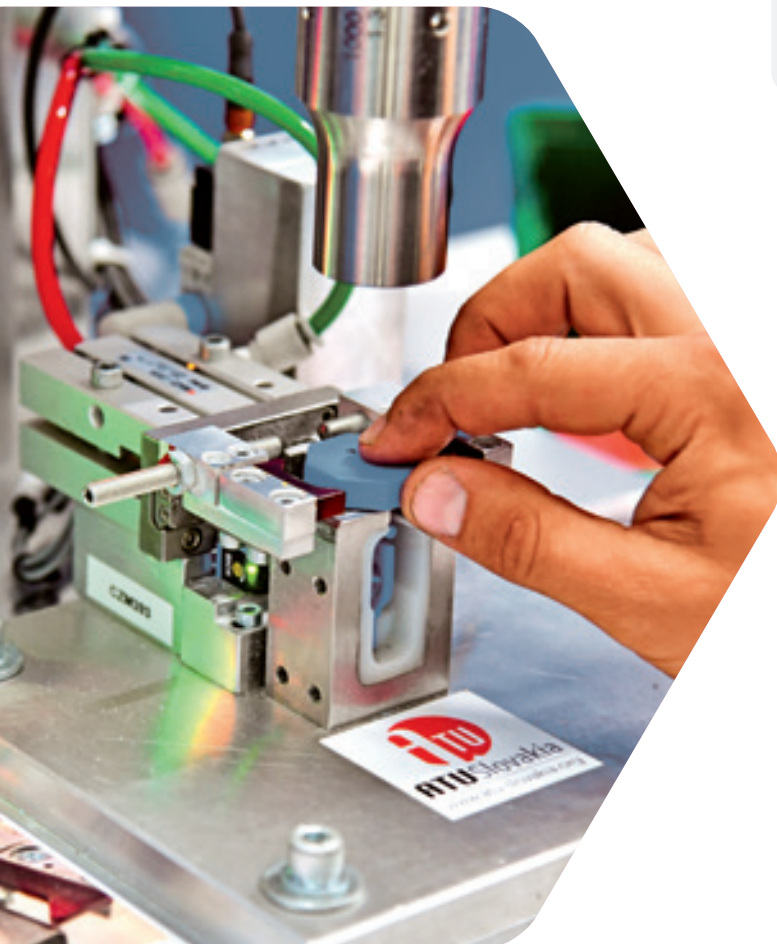
OUR PROACTIVE ACTIONS ON COVID-19 continued

OUR STAKEHOLDERS

- Donated in excess of 11,000 reusable face-shields to first responders and teachers.
- Virtual AGM held in September 2020.

OUR PEOPLE

- Safety, health and wellbeing our highest priority.
- All office-based employees home working where possible – manufacturing presence continued in line with local government guidelines.
- Limited number of non-business-critical employees returned to work.
- Return to site risk assessments completed and strict procedures put in place.
- Office reconfigurations, cleaning and temperature checking.
- At the height of the pandemic, weekly senior management meetings.
- No international travel in the period. National travel limited to where absolutely necessary.



OUR CUSTOMERS AND SUPPLIERS



- Production aligned to demand, with priority to COVID-19 related products.
- Strong service levels for customers.
- Increased raw material and packaging levels.
- Key role within multiple supply chains.
- Continue to operate production plants globally (defined as an essential industry).
- Supported development of key medical applications in the fight against COVID-19.
- Continuing to pay suppliers to terms.
- In Aerospace, due to the massive reduction in air travel, production was rapidly realigned with annual forecasts, and main customer build rate reductions typically of c.33%.
- In Aerospace, spares orders for the industry reduced dramatically due to flights being grounded.
- In Aerospace, ensured there was a secondary source for all products/services in place, maintained regular contact and monitoring of delivery performance, and on critical items an increased safety stock was maintained.

OUR FINANCIAL POSITION



- Government support received of over £0.7 million at local levels has been recognised within operating costs where received in the financial year. This comprises over £0.2 million of grant and other support for the Aerospace division, £0.3 million for CTP UK and £0.2 million for CTP China. A stimulus loan of £2.1 million was received for CTP USA in April 2020 which was confirmed by the US government as forgiven in May 2021 and subsequently will be recognised in the income statement in the forthcoming financial year.
- Other initiatives to conserve cash and costs include:
 - A range of cash conservation measures implemented across all business units and Group Head Office.
 - Stress test scenarios evaluated, with net cash position maintained.
 - Reduction in global employee headcount of net 16 across sites to address the expected lower production levels, which have since been offset by recovery and growth in many sites to recover to near normal levels other than in Aerospace, where headcount is down twelve on last year as the table below shows on headcount for continuing business.

The average monthly number of persons employed by the Group during the year was as follows:

| | 2021 Number of employees | 2020 Number of employees |
|-------------------------------|--------------------------------|--------------------------------|
| By segment | | |
| Central | 20 | 20 |
| Technical Plastics | 967 | 971 |
| Aerospace | 61 | 73 |
| | 1,048 | 1,064 |
| By geographic location | | |
| United Kingdom | 306 | 297 |
| North America | 378 | 377 |
| Rest of world | 364 | 390 |
| | 1,048 | 1,064 |

OUR MARKETS



MEDICAL

Carclo's continued growth in diagnostics, respiratory, ostomy, ophthalmic, women's healthcare, blood management and surgical products will continue to fuel investment in equipment and facilities. Harmonisation of management systems and manufacturing methods continue to advance Carclo's technical capabilities to support the industrialisation of medical markets. Carclo's technical offering and strategic footprint aligns well with increasing global demand in clinical chemistry, diagnostic disposables and blood management with leading OEMs.

ELECTRONICS & CONSUMER



Electronics and consumer products not only have been a founding cornerstone but also remain a strong segment of our business. Decreasing size of electronic components and increasing cost pressures on consumer products has fuelled growth in low-cost regions and increased capabilities across a range of high precision gears, connectors, fire and safety applications, packaging, as well as dispensing equipment applications.



OPTICS

Carclo is a specialist in the design, development and manufacture of bespoke injection moulded optical components and assembled devices across a wide range of applications. Following the disposal of the premium automotive LED Technologies activities, Carclo maintains its niche position in the LED lighting markets providing energy savings and performance solutions in the areas of architectural lighting, street lighting, automotive and aerospace. Carclo carries its own proprietary line of optics for LED applications in addition to standard and custom designed electro optics such as Fresnel lenses, light guides, guidance systems and CCTV security domes.

CONTROL CABLES



Success in the stringent aerospace and defence markets demands a regime where the most exacting production quality standards attainable are imposed.

Bruntons and Jacottet manufacture aircraft mechanical control cables, specialised machined components, mechanical assemblies, aerofoil sections, streamline wires and tie rods and have over a century of experience in the aviation industry.

BUSINESS MODEL & STRATEGY

The Group is focused on delivering sustainable growth in earnings by focusing on being the supplier of choice in our core markets.

Our resources & relationships

PEOPLE

We aim to be the employer of choice in our sector and locations. Our engaged and skilled workforce is focused on delivering the best solutions for our customers through innovation, customer collaboration and quality. We are creating an environment that enables our employees to realise their full potential whilst feeling safe and supported.

CAPITAL

We operate within a disciplined capital allocation framework that allows us to invest in growth and productivity enhancement whilst meeting our obligations to the external stakeholders.

RELATIONSHIPS

We build and maintain close long-term relationships with customers, suppliers and other stakeholders; centred on trust and collaboration.

SUPPLY CHAIN

We have developed long-standing relationships with key partners in our supply chain, which is a key element of delivering on-time quality products to our customers.

ASSETS

We focus on enhancing operational efficiency and return on invested capital. We ensure investment in new assets is accretive to overall Group return on capital.

EXPERTISE

Our people are experts in their fields. From innovation to operations and product stewardship we have experts who enable us to deliver unique and superior products to our customers.

Operating model

Underpinned by our values and culture

Safety

People

Customer

Ethics

Excellence

We achieve this through our technical capability and operational excellence, which enables us to consistently deliver high quality products to, and build deep relationships with, our customers.

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. Each of our businesses monitor key aspects of our customer performance and this is continually fed back to our employees.

OPERATIONAL EXCELLENCE

We meet our customers' expectations through a focus on operational excellence which enables us to deliver high quality products, on time at a competitive price, whilst achieving a return on investment above our hurdle rate.

RESPONSIVE CULTURE

We operate with a flat and decentralised management structure in order to make fast and responsive decisions to the benefit of our customers, employees and ultimately for the Group as a whole. We expect our management teams to operate in an entrepreneurial manner and reward them appropriately. This devolved structure also enables the Group to operate with a lean overhead structure.

GLOBAL FOOTPRINT

Our business operates across three different continents to provide local support to our global customers. We ensure that we operate ethically in all of our locations, respecting local regulations, and we develop a culture of best practice in operational management, customer responsiveness as well as ensuring that our approach to health and safety is consistent in all of our operations.

Value creation

SHAREHOLDERS

The Group will create value for shareholders by generating sustainable earnings and positive cash flow in excess of the requirements of other external financial stakeholders. We will continue to rebuild the strength of our balance sheet to enable investment for future growth.

EMPLOYEES

Creating and maintaining rewarding careers for our total global workforce of c.1,000 is critical for the delivery of our strategy.

CUSTOMERS

We provide critical components to our customers who operate in demanding, highly regulated markets. The quality of our products enables our customers to provide value-added solutions in safety-critical environments.

SUPPLIERS

We value our supplier relationships and take a long-term strategic approach to mutual value creation.

PENSION

The Group provides funding to the pension funds that provide retirement benefits for past and present employees. Although the defined benefit schemes are closed, the Group takes its funding obligations seriously and works closely with the scheme trustees to ensure that the future commitments to scheme members are met.

DEBT PROVIDERS

The Group has a long-standing relationship with its lending bank. The bank provides funds that enable the Group to grow and create value for all stakeholders and in turn the Group seeks to deliver a return on invested funds to its lending bank.

OUR STAKEHOLDERS

The Directors understand their responsibilities to promote the success of the Company in accordance with Section 172 of the Companies Act 2006.

Section 172

Our purpose at Carclo plc is to deliver high quality, precision components to our customers that enable them to provide solutions in highly regulated safety-critical environments. Our technology and products are relied upon by customers worldwide who trust us to deliver reliable, high quality, cost-effective products that ultimately enhance lives of the end-users of the systems of which they form a part.

Effective engagement with our stakeholders is crucial to the delivery of our purpose and our strategy. The Directors understand their responsibilities to promote the success of the Company in accordance with Section 172 of the Companies Act 2006.

Section 172 of the Companies Act 2006 requires the Directors to have regard to a number of factors including taking into consideration the interests of stakeholders in their decision-making. Further information on how the Directors oversee stakeholder engagement and discharge their duties and responsibilities is included in the statement of corporate governance on pages 40 to 43.

| Stakeholders | Material issues | How we engage | Outcomes |
|--|---|--|--|
| EMPLOYEES We recognise that having engaged, motivated employees with aligned values is key to the long-term success of the business. We seek to be the employer of choice in our sector and geographies in which we operate. | <ul style="list-style-type: none"> • Ensure our core values are embedded throughout the Group. • Create a positive working environment through a high performing culture. • Attract and retain a diverse range of talent and perspectives. • Ensure employees are engaged in their roles. • Effectively invest in personal development and career progression. | <ul style="list-style-type: none"> • Site visits by the whole Board including sessions with a cross-section of employees enabling employees to engage directly with Board members. • Each of the Non-Executive Directors are responsible for employee engagement at different sites in the UK, and act as a conduit between the Board and employees. • The Executive Chairman and Divisional leadership hold regular "town hall" meetings with staff to discuss and communicate a range of issues. • All employees receive an induction, a Group overview presentation and details of Carclo's policies and processes, health and safety and more. | <ul style="list-style-type: none"> • It was not possible to undertake any further workforce meetings in the financial year due to COVID-19 restrictions. The Non-Executive Directors intend to recommence such workforce meetings once travel restrictions are lifted. • Divisional leadership continued to hold regular "town hall" meetings of a virtual nature. |
| SHAREHOLDERS Our strategy aims to deliver long-term returns to our shareholders. We recognise the importance of the support of our shareholders as the business makes progress on its restructuring and value-creation plan. | <ul style="list-style-type: none"> • Creation of shareholder value requires a successful delivery of our strategy. • Communication of progress on this strategy is important to ensure shareholders are appraised of the potential for return on investment. | <ul style="list-style-type: none"> • The Executive Chairman maintains regular contact with our key shareholders and reports regularly to the Board. • The Company provides regular updates to the market via press releases and presentations following full-year and half-year results. • The Company utilises the regulatory news system to provide updates on relevant significant news to shareholders. | <ul style="list-style-type: none"> • The Executive Chairman continued to liaise with key shareholders throughout the financial period. |

Stakeholders**Material issues****How we engage****Outcomes****CUSTOMERS**

Our products enable our customers to deliver their solutions in highly regulated, safety-critical environments.

- Ensure we meet or exceed our customers' requirements in all respects: quality; on-time delivery; value.
- Provide technical solutions that enable our customers' products to be competitive in their markets.
- Obtain feedback on where we are performing well and any areas where we can improve.

- Continuous engagement by a range of employees in our divisions including divisional CEOs via face-to-face and telephone meetings, to discuss performance and future solutions.
- Measurement and monitoring of key operational KPIs at both business unit and Board level.

- Management continued to liaise with customers throughout the period to discuss performance and future solutions.
- Operational KPIs at both business unit and Board level have been continually developed throughout the period.

SUPPLIERS

Our suppliers enable us to deliver on our commitments responsibly and sustainably.

- Ensure high standards throughout our supply chain.
- Ensure compliance with recognised standards that uphold human rights and safety, prohibit modern slavery and promote sustainable sourcing.
- Develop long-term partnerships that enable us to meet our customer commitments.

- Regular audits are carried out at key suppliers.
- Suppliers asked to agree to Carclo's policies on modern slavery and human trafficking, and anti-bribery and corruption.
- New suppliers are audited before approval.

- Regular audits continued to be carried out at key suppliers.

LENDING BANK

The Group's lending bank provides funds that enable the Company to invest and grow.

- Secure long-term financial support for the Group.
- Ensure that the lending bank is appraised of progress on the Group's value-creation strategy.

- The Executive Chairman and CFO work closely with the lending bank.
- The Group provides information relating to Group performance and progress on strategy delivery to the bank on a regular basis.

- Quarterly update meetings are held with the lending bank, as well as regular updates and supplying of information in between meetings.

PENSION

The Company provides deficit repair contributions to the Group pension fund which in turn provides retirement benefits for past and current employees of the now-closed defined benefit pension scheme.

- Achieving an agreed schedule of deficit repair contributions that balances the needs of the scheme and the needs of the business to invest.
- Ensuring that the scheme assets and liabilities are managed appropriately.

- The Executive Chairman and CFO work closely with the pension trustees.
- The Group provides information relating to Group performance and progress on strategy delivery to the pension trustees on a regular basis.
- The Group is working closely with the pension trustees to deliver the optimal long-term funding and management solution.

- Quarterly update meetings are held with the pension scheme trustees, as well as regular updates and supplying of information in between meetings.

LOCAL COMMUNITIES

We believe that business should be a force for good in the communities in which we operate. We aim to support and inspire our employees to make a difference in their communities.

- Understand how we can contribute positively and sustainably to our local communities.

- The responsibility for community engagement is devolved to the local business units.

- Some activity has been curtailed in the period due to the pandemic, however more information can be seen in our CSR report on page 22.

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

Revenue from continuing operations (£m)

£107.6m

▼2.6%

| 2021 | 107.6 |
|------|-------|
| 2020 | 110.5 |
| 2019 | 105.3 |
| 2018 | 104.7 |
| 2017 | 103.2 |

Definition and method of calculation

Revenue from continuing operations (comparative years have been restated to remove discontinued operations and so to present continuing operations on a like-for-like basis).

Explanation of importance

Helps to monitor our success in growing the business.

Underlying operating profit from continuing operations (£m)

£4.8m

▼34.2%

| 2021 | 4.8 |
|------|-----|
| 2020 | 7.3 |
| 2019 | 6.4 |
| 2018 | 6.2 |
| 2017 | 8.2 |

Definition and method of calculation

Operating profit before exceptional items from continuing operations (comparative years have been restated to remove discontinued operations and so to present continuing operations on a like-for-like basis). Please refer to the reconciliation of non-GAAP financial measures within the information for shareholders on page 149.

Explanation of importance

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

Net debt excluding lease liabilities (£m)

£20.5m

▼7.2%

| 2021 | 20.5 |
|------|------|
| 2020 | 22.1 |
| 2019 | 37.0 |
| 2018 | 31.5 |
| 2017 | 26.0 |

Definition and method of calculation

Net debt excluding lease liabilities is defined as loans and borrowings, excluding lease liabilities, less 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 page 149.

Explanation of importance

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

Non-financial KPI

Net debt
(£m)

£27.6m
▲0.07%

| | |
|------|------|
| 2021 | 27.6 |
| 2020 | 27.4 |
| 2019 | 38.5 |
| 2018 | 31.5 |
| 2017 | 26.0 |

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 page 149.

Lease liabilities as at the balance sheet date were £7.1 million.

On 1 April 2019 the Group initially applied IFRS 16 leases. The comparatives presented for 2016/17, 2017/18 and 2018/19 are presented under the previous accounting standard IAS 17.

Explanation of importance

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

Return on capital employed
(%)

13.5%

| | |
|------|------|
| 2021 | 13.5 |
| 2020 | 10.1 |
| 2019 | 2.0 |
| 2018 | 14.2 |
| 2017 | 19.9 |

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 closing equity plus net debt.

Explanation of importance

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

Lost Time Injury
Frequency Rate

2.7

| | |
|------|-----|
| 2021 | 2.7 |
| 2020 | 4.7 |
| 2019 | 6.9 |
| 2018 | 8.3 |

This KPI commenced in 2018.

Definition and method of calculation

Lost Time Injury Frequency Rate measures the number of lost time injuries per 100,000 hours worked.

The 2018, 2019 and 2020 rates include the discontinued Wipac business.

Explanation of importance

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

CORPORATE SOCIAL RESPONSIBILITY REPORT

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

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.

During the year there have been no prosecutions, fines or enforcement action as a result of non-compliance with safety, health or environmental legislation.

Group Executive Committee

The Group Executive Committee, which is chaired by the Executive Chairman, 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 below, 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 | CSR report (page 22) |
| Employees | Ethical Policy Health and Safety Policy Equal Opportunities and Diversity and Inclusion Policy | CSR report (pages 21 and 22) |
| Human rights | Modern Slavery Statement Ethical Policy | CSR report (page 22) |
| Anti-corruption and anti-bribery | Anti-Bribery and Corruption Policy Ethical Policy Whistleblowing Policy | CSR report (page 22) Statement of corporate governance (page 42) |
| Policy embedding, due diligence and outcomes | | Principal risks and uncertainties (page 28) |
| Description of principal risks and impact of business activity | | Principal risks and uncertainties (pages 29 to 32) |
| Description of the business model | | Our business model and strategy (pages 14 and 15) |
| Non-financial KPIs | | Key performance indicators (page 19) |

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 2021, 31.6% of our employees identified as female (2020: 25.9%). The proportion of women in senior management positions amounted to 12% (2020: 19%). The 2020 gender ratios include the discontinued Wipac business.

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 Group is working hard to promote the health and wellbeing of its employees. For example:

- the Group is rolling out ISO 45001.
- in China and India, Women's Day is celebrated every year. This includes a small gift and lunch for our female employees;
- in China, we traditionally hold an annual dinner and award and recognition ceremony for achievements;
- a safety day was held in India. This year marked the 50-year anniversary of the event. An annual event is held whereby employees compete for prizes for slogans, make safety pledges and management communicates its plans;
- a large organised event with the senior director of factory inspectors and local industrial board CEO and other local influencers was held in India. Carclo is seen as a safe and modern employer in India; and
- in India, a senior doctor attended to provide awareness on female health issues as well as highlighting support for sexual harassment in the workplace.



CORPORATE SOCIAL RESPONSIBILITY REPORT continued

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 65 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 Modern Slavery statement for the year ended 31 March 2021 can be found at www.carclo.co.uk.

Environmental Policy

It is the Group's policy to continually seek to eliminate and, where this is not practicable, to minimise negative environmental impacts from the pursuit of its various business interests whilst continuing to produce high quality products to its customers' requirements.

It is the Group's policy to comply with all statutory environmental legislation as a minimum and to aim to improve upon the standards set by the local regulatory authorities.

It is the Group's policy to foster an informed and responsible approach to all environmental concerns and it encourages the involvement of employees, customers and suppliers.

Regulatory authorities are consulted and informed at all appropriate times.

The Group continues to support long-term strategies to minimise, reuse and recycle packaging through its membership of Valpak, a not-for-profit organisation through which a large number of businesses work together to recover and recycle packaging.

Health and safety

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 supplier.

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.

In recent years our CTP business has funded the planning, design and construction of a multi-use building in a local village, bio-toilets at three schools, classroom buildings and a dormitory building at a further two schools. This year we donated over 10,000 face shields to medical workers and first responders in our local communities in India.

During the COVID-19 pandemic, our CTP facility in Latrobe, USA undertook a Battle of the Teams Food Drive, whereby teams competed to bring in food donations. In total the teams donated over 1,100 items to the Salvation Army's emergency pantry, which was much needed for Latrobe's Salvation Army, which during the challenging time of the pandemic had seen a large increase in the need for their services. CTP also made a donation of \$500 in support of the charity.

In the USA, employees donated Christmas stockings to a local long-term care facility, which was gratefully received.

We also donated face shields to local schools, first responders and charities in the US. The total we donated globally was around 11,500, including the 10,000 in India as referred to above.

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. 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 2020-21 year, the Group donated £15k to charity (2019-20: £18k).

It is the Group's policy not to make political donations and no such donations were made in the year (2019-20: £nil).

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

Carclo is working to bring its future environmental reporting in line with the recommendations from the Task Force on Climate-related Financial Disclosures ("TCFD"). The TCFD seeks to develop consistent climate-related financial risk disclosures for use by companies in providing information to stakeholders.

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 2021 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: | 2021 | 2020 | Percentage change |
|---|--------|--------|-------------------|
| Scope 1 (tCO ₂ e) Gas, Fuel and Industrial Emissions | 522 | 822 | (36.5)% |
| Scope 2 (tCO ₂ e) Electricity | 20,564 | 23,927 | (14.1)% |
| Total (tCO ₂ e) | 21,086 | 24,749 | (14.8)% |
| Group revenue (£ million) | 107.6 | 146.3 | (26.5)% |
| Intensity ratio (tCO ₂ e per £1 million of revenue) | 195.2 | 169.2 | 15.4% |

Energy consumption

Carclo consumed a total of 44,068 MWh of energy globally during 2020/21 (2019/20 52,407 MWh) comprising UK 2020/21 14,068 MWh (2019/20 20,807) and rest of the world 2020/21 30,000 MWh (2019/20 31,600 MWh). UK tCO₂e 2020/21 3,200 (2019/20 5,200), rest of the world 2020/21 17,900 (2019/20 19,500). Prior year data includes the LED Technologies discontinued operations. The Company's chosen energy intensity measure is MWh of energy per £ million of revenue. The intensity measure is as follows:

$$\frac{\text{Total energy consumed 44,068 MWh}}{\text{Total revenue £107.6 million}} = 409.6 \text{ MWh/£ million of revenue}$$

The intensity ratio of energy consumption has increased this year due to the discontinuation of the LED Technologies operations in 2020 which, due to the nature of its business, carried a much lower intensity ratio in the prior year of 34.7 tCO₂e per £1 million revenue against 217.4 tCO₂e for the rest of the Carclo Group.

Energy Performance – Electricity (MWh)

From April 2020 to March 2021 the total electricity consumption was 41,634 MWh and it has been calculated that 2020-2021 electricity consumption is 14% lower than those in the same period in 2019-2020.

Energy Performance – Natural Gas (MWh)

From April 2020 to March 2021 the total natural gas consumption was 2,010 MWh and it has been calculated that 2020-2021 natural gas consumption is 33% lower than those in the same period in 2019-2020.

Energy Performance – Direct Transport (MWh)

From April 2020 to March 2021 the total direct transport consumption was 331 MWh and it has been calculated that 2020-2021 transport energy consumption is 49% lower than those in the same period in 2019-2020.

The Group has undertaken a range of improved energy management initiatives in the year. Carclo USA have replaced two older Arburg hydraulic presses with new energy efficient electric presses and participated in an energy study with First Energy (electric supplier) for which they received energy rebate payments because of the significant energy savings. In the Czech Republic, Carclo plan to buy ten electric moulding machines instead of hydraulic over the next three years. This should result in significantly lower energy consumption. In Taicang, China, between April 2020 and March 2021, the Company has installed LED lighting, replaced the By-Pass Valve System and installed AEC GPWC-IC Series Water-Cooled Portable Chillers for plant and machinery. In India, metal halide lamps were replaced by LED lights in B19 plant (four out of eight) and at Hall B and there are plans to install the speed regulator in exhaust fans (under monitoring) as well as to install the pressure booster in the pneumatic line (which will reduce the compressed air requirement).

Management continues to monitor consumption and review business cases for opportunities to invest in lower consumption technology, plant and machinery and renewable energy sources.

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. 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. Calculations of emissions for the period have been made using third-party, specialist software and have undergone third-party quality assurance.

FINANCE REVIEW



Significant statutory profit and operating cash flow improvement: statutory operating profit was £9.3 million (2020: £4.4 million loss), and net cash from operating activities from continuing operations was £8.4 million (2020: £6.9 million).

Phil White

Chief Financial Officer

Trading performance

Revenue from continuing operations decreased by 2.7% to £107.6 million (2020: £110.5 million) with CTP revenue of £102.5 million, down 0.6% (2020: £103.1 million) and Aerospace revenue of £5.1 million, down 31.7% (2020: £7.5 million). Revenue from discontinued operations was £nil (2020: £35.8 million). Overall Group revenue decreased by 26.5% to £107.6 million (2020: £146.3 million) following the disposal of the loss-making Wipac LED Technologies division in the prior year.

Underlying operating profit¹ from continuing operations decreased by £2.5 million to £4.8 million (2020: £7.3 million). £1.1 million of the profit reduction arose from Aerospace underlying operating profit of £0.6 million (2020: £1.7 million), due to the heavy impact on the market sector from COVID-19 restrictions. CTP underlying operating profit of £9.2 million was broadly unchanged (2020: £9.3 million), and central costs of £4.9 million (2020: £3.6 million) increased by £1.3 million due to PPF levy cost increases and foreign exchange movements.

After exceptional items, operating profits for continuing operations increased to £9.3 million (2020: £1.8 million). The £4.5 million of net exceptional gains in the year reflects a pension past service credit of £6.5 million primarily from introducing a new flexible retirement option to the defined benefit pension scheme members, offset by £2.0 million of restructuring and refinancing costs. These exceptional costs were largely incurred to support the establishment of a three-year tripartite financing and funding agreement and platform for financial stability between the principal bank and pension scheme trustees in August 2020. The £5.5 million prior year exceptional costs for the continuing business mainly related to restructuring and rationalisation costs and impairment provisions against the Aerospace business.

Underlying earnings before interest, taxation, depreciation and amortisation ("underlying EBITDA") from continuing operations decreased to £10.8 million (2020: £13.4 million). The 2020 comparative including discontinued operations was £11.3 million. The return on sales from continuing operations (defined as underlying EBITA divided by revenue) was 4.7% (2020: 6.8%).

Discontinued underlying operating losses were £0.1 million (2020: £2.9 million), having completed the exit from the Wipac LED Technologies business in the prior year.

Group underlying profit before tax from continuing operations was £2.2 million (2020: £4.9 million) after net interest of £2.7 million (2020: £2.4 million). Total Group interest including discontinued operations was £2.7 million (2020: £2.6 million), comprising net bank interest of £1.6 million (2020: £1.2 million), pension finance charges of £0.8 million (2020: £1.1 million) and leasing and other interest charges of £0.3 million (2020: £0.3 million).

1. Underlying operating profit is defined as operating profit before all exceptional items.

The Group underlying tax charge from continuing operations totalled £0.5 million (2020: £1.4 million), an underlying effective tax rate from continuing operations of 21.0% (2020: 27.8%). The effective tax rate is higher than the current UK corporation tax rate due to the weighting of taxable profits generated in higher tax jurisdictions. The overall effective rate has reduced in the year after taking account of provisions for tax uncertainties no longer required and timing differences.

Basic underlying earnings per share from continuing operations were 2.4 pence (2020: 4.9 pence).

As set out in note 10, exceptional items incurred for continuing operations totalled £4.5 million credit, of which a £2.0 million charge relates to the costs of external advisors of the Company, its lending bank and the Group pension scheme related to the refinancing process completed in the year, and a £6.5 million credit primarily relates to past service gains from the defined benefit pension scheme after the introduction of flexible early retirement benefits.

The exceptional credit associated with the discontinued operations totalled £1.2 million, reflecting further disposal receipts from the administrator of the discontinued Wipac LED Technologies business.

Statutory operating profit was £9.3 million (2020: £4.4 million loss). Statutory profit before tax was £6.6 million (2020: £7.0 million loss) and statutory profit after tax was £7.4 million (2020: £11.4 million loss), giving a statutory basic earnings per share of 10.1 pence (2020: 15.5 pence loss). The statutory tax charge was £0.5 million, compared with a tax charge in 2020 of £1.4 million on higher profits chargeable to tax and adverse prior year movements on timing differences and provisions. A reconciliation of statutory to underlying non-GAAP financial measures is provided on page 149.

Net debt

Net debt excluding lease liabilities was £20.5 million (2020: £22.1 million). Net debt including lease liabilities was £27.6 million (2020: £27.4 million).

Net cash from operating activities from continuing operations was £8.4 million (2020: £6.9 million).

In the year, the Group invested £10.5 million in property, plant, equipment and software (2020: £7.3 million) in its continuing operations, mainly in CTP's UK and USA operations. This represented 177% of the Group depreciation and software amortisation charge from continuing operations (2020: 121%).

At 31 March 2021, total UK bank facilities were £35.6 million, of which £3.5 million related to a revolving credit facility and £32.1 million in term loan facilities, of which £3.0 million are scheduled for repayment by September 2022.

The three-year bank facility agreement established in August 2020 lasts until July 2023, with a commitment to agree the next refinancing arrangements by 30 June 2022.

The last triennial actuarial valuation of the Group pension scheme was carried out as at 31 March 2018, reporting an actuarial technical provisions deficit of £90.4 million. The next triennial actuarial valuation results as at 31 March 2021 are not expected to be finalised until June 2022, but the actuary's update of the 2018 triennial valuation to 31 March 2021, based on the 2018 actuarial assumptions adjusted for changes in market conditions, reported a deficit of £89.9 million, indicating the scheme to be 65% funded on a continuing basis. By way of comparison, the statutory accounting method of valuing the Group pension scheme deficit under IAS 19 resulted also in a small improvement in the net liability of £37.3 million (2020: £37.6 million).

Treasury

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

Each business hedges significant transactional exposure using forward foreign exchange contracts for any exposure over £20,000. The Group reports trading results of overseas subsidiaries based on average rates of exchange compared with sterling over the year. This income statement translation exposure is not hedged as this is an accounting rather than cash exposure and as a result the income statement is exposed to movements in the US dollar, euro, Czech Koruna and Indian Rupee. In terms of sensitivity, based on the 2020/21 results, a 10% increase in the value of sterling against these currencies would have decreased reported profit before tax by £0.7 million.

Dividend

Given the financial performance and position of the Group, coupled with restrictions on the payment of dividends contained within the refinancing agreement and the lack of distributable reserves, the Board is not recommending the payment of a dividend for 2020/21 (2020: £nil). The Board intends to recommence dividend payments only when it becomes confident that a sustainable and regular dividend can be re-introduced. Under the terms of the restructuring agreement, the Group is not permitted to make a dividend payment to shareholders up to the period ending in July 2023.

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 page 149.

FINANCE

REVIEW continued

Alternative performance measures continued

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 is provided below:

| £m (component numbers include rounding differences) | Statutory | Less exceptional items | Underlying continuing and Group |
|---|--------------|------------------------|---------------------------------|
| CTP operating profit | 9.2 | — | 9.2 |
| Aerospace operating profit | 0.6 | — | 0.6 |
| Central costs | (0.4) | (4.5) | (4.9) |
| Group operating profit from continuing operations | 9.4 | (4.5) | 4.9 |
| Group operating loss from discontinued operations | (0.1) | 0.1 | — |
| Group operating profit | 9.3 | (4.4) | 4.9 |
| Net finance expense | (2.7) | — | (2.7) |
| Group profit before taxation | 6.6 | (4.4) | 2.2 |
| Taxation | (0.5) | — | (0.5) |
| Profit on disposal of discontinued operations | 1.3 | (1.3) | — |
| Group profit for the year | 7.4 | (5.7) | 1.7 |
| Basic earnings per share (pence) | 10.1p | n/a | 2.4p |

The exceptional items comprise:

| £m | Continuing operations | Discontinued operations | Group |
|---|-----------------------|-------------------------|------------|
| Restructuring and rationalisation costs | (2.0) | (0.1) | (2.1) |
| Gain in respect of retirement benefits | 6.5 | — | 6.5 |
| Profit on sale of LED Technologies business | — | 1.3 | 1.3 |
| Total exceptional items | 4.5 | 1.2 | 5.7 |

Post balance sheet events and going concern

Post balance sheet events

On 4 May 2021, a further £0.2 million was received by HSBC from the Administrators of Wipac Ltd and has been applied as a repayment against the Group's term loan. At 31 March 2021 no asset has been recognised for this nor for further potential post balance sheet proceeds which would also be used to repay the Group's term loan.

Management's best estimate of the contingent asset at 31 March 2021 in respect of these remaining potential proceeds is £0.35 million, the receipt of the £0.2 million does not change this.

At 31 March 2021, the Group has recognised £2.1 million (\$2.9 million) in loans and borrowings in respect to a Paycheck Protection Program loan. The loan was received from Commercial Bank and Trust of Pennsylvania as a promissory note, underwritten by the US Government Small Business Administration ("SBA"). On 5 May 2021, CTP USA received confirmation of forgiveness of the loan by the SBA, resulting in its conversion from a loan to a grant. The full amount will be recognised in the income statement in the year ending 31 March 2022.

Going concern

Cash flow and covenant forecasts have been prepared to cover the twelve-month period from the date of signing these financial statements taking into account the Group's available debt facilities and the terms of the arrangements with the bank and the pension scheme. These demonstrate that the Group has sufficient headroom in terms of liquidity and covenant testing through the forecast period.

Sensitivity testing has been carried out based on a number of reasonably possible scenarios, taking into account the current view of impacts of the continuing COVID-19 pandemic on the Group and possible political uncertainty, including: the impact of change in the US administration, Brexit and other possible overseas trading issues.

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 5% matched by a corresponding fall in cost of sales of the same amount, the loss of COVID-related sales from large customers, delays in the timing of commencement of significant new medical projects, reduction in revenue from specific customers, minimum wage increases and exchange risk. These sensitivities attempt to incorporate the risks arising from national and regional impacts of the global pandemic from local lockdowns, impacts on manufacturing and supply chain and other potential increases to direct and indirect costs. The Group has the capacity to take mitigating actions to ensure that the Group remains financially viable, including further reducing operating expenditures as necessary.

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 to it and to adhere to the covenant tests to which it is subject throughout the twelve-month period from the date of signing the financial statements and as such it has adopted the going concern assumption in preparing the financial statements.



Phil White
Chief Financial Officer

29 June 2021

PRINCIPAL RISKS AND UNCERTAINTIES

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 understanding of the actual and potential risks to our business as well as its resilience, performance, sustainability and success, to enable it to assess and respond to new opportunities as they arise and to provide fair and balanced information to shareholders and potential shareholders.

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

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

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

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 the significant risks to be readily identified and the appropriateness of mitigations considered. The risk registers are reviewed, challenged and debated to keep them up to date and relevant to our strategy. Risks are escalated as appropriate.

During the year all the key risks identified by the sites were evaluated 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 main 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.

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. Group Executive Committee meetings now regularly select a Group risk register item for particular focus according to priority or rotation.

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

The responsibilities of the Audit Committee are explained on pages 44 to 46. These responsibilities include the reviewing of the Group's risk management systems. These are primarily designed to mitigate risk down to an acceptable level, rather than completely eliminate the risk, and the review can provide only reasonable and not absolute assurance of effective operation, compliance with laws and regulations and against material misstatement or loss.

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

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

Risks

1. Political uncertainty, including Brexit

Political uncertainty such as the impact of changes in the US administration, Brexit in the UK and other overseas trade issues such as US and Chinese trade tariffs can naturally affect decisions by our customers to invest and therefore impact on our trading in those locations.

The risk resulting from Brexit is considered to have decreased following the country's exit from the EU. While some increase in supply chain delays and costs have been felt, the overall net effect to date has not significantly impacted the Group.

2. COVID-19

The COVID-19 pandemic has been an unexpected shock to the global economy. Economic activity has been suppressed globally with no certainty over how the pandemic will develop, with differing approaches being taken by national governments adding complexity in globalised supply chains.

There is a risk to customer demand, supplier capability and our own capability to deliver, meaning the Group needs to adapt to continually changing circumstances.

Notwithstanding strong demand in the medical sector, governmental guidance on social distancing and limited shutdowns has had an impact on operational efficiency which inevitably affects profitability. The Group's Aerospace division has witnessed a significant reduction in customers' aircraft new build programmes and with much of the global civil aircraft fleet having been grounded since March 2020, demand for both new build and spares has been negatively affected.

The plastics division was also affected with some early plant closures but has recovered strongly in the second half year. However, there remain multiple waves of infections and prevalence in customer end-markets and operating countries including India. So while the very high risk to the business in the first half year appears to have receded, the Company remains extremely vigilant and responsive to COVID-19 protection requirements and employee welfare.

Mitigation

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

Reducing risk level: While Brexit risk cannot be completely mitigated, as the exit process progresses in 2021, the uncertainty is starting to reduce. Carclo continues to trade with member states and the Group has acted on new trading regulations as the implications of the EU exit become ever clearer. As the Group operates in countries which are outside of Europe and the EU, this dilutes the Brexit impact.

Offsetting opportunities: Management continue to monitor and review competitive intelligence while evaluating potential effects of political uncertainties. Political uncertainty risk is considered while focusing on cost efficiency opportunities and differentiating our business by developing new growth plans to provide a stronger product for our customers and increased capability across all our operating regions.

Modifying working procedures: The Group has continued to actively monitor the COVID-19 outbreak in line with local and national authorities, public health bodies and WHO guidelines and will continue to modify procedures and working practices accordingly.

Accessing government support: Government support programmes have been accessed where available, including the furlough scheme and HMRC payment deferrals in the UK, the Paycheck Protection Program in the US and some tax relief in China. Action has also been taken to reduce costs where possible in both divisional and central areas. As a result, profitability and positive cash flow have been achieved even in the Aerospace division which was impacted most.

The Group remains focused on ensuring operational continuity wherever it can; however, it remains very difficult to predict how the ongoing pandemic will affect performance until the impact of new variants and waves of infection is sustainably reduced longer-term. Government incentives are considered and continue to be actively pursued as appropriate.

Creating bank headroom: The refinancing agreed with HSBC in August 2020 provides an additional £3 million headroom to support the Group to manage through the near-term uncertainty presented by the COVID-19 pandemic, and the Group is well protected with cash headroom against facilities of over £15 million at 31 March 2021. The divisions have remained profitable and cash generative during the year.

Weekly monitoring: The Group quickly established a COVID-19 committee meeting weekly and regular meetings continue covering latest COVID-19 news and mitigation plans as required.

H&S balancing: Operational changes are being made continuously across all sites to minimise H&S risk whilst maintaining production capability.

Offsetting opportunities: Commercial opportunities within the medical testing sector are also being pursued. Cost-saving initiatives are pursued to mitigate areas of ongoing suppressed demand.

New business: The Group has successfully won COVID and non-COVID testing work in CTP USA and CTP UK.



Disruption mitigation: On the whole our sites have continued to manufacture throughout the pandemic with modest closures seen particularly in the first half of the year to 31 March 2021. Instances of COVID-19 within the workforce have been low and spread out sufficiently to not be a major disruption.

Stakeholder support: The bank and pension scheme remain supportive. No payment holidays have been needed or put into place thus far.

Change



PRINCIPAL RISKS AND UNCERTAINTIES continued

| Risks | Mitigation | Change |
|---|---|---|
| <p>3. IT security breach, systems failures</p> <p>Hacking and ongoing data security risk is a concern for businesses everywhere. For listed companies like Carclo the risk increases. Since the 2020 COVID-19 outbreak there has also been a substantial rise in cyber-criminal activity such as ransomware and trojan deployment.</p> <p>Our IT systems process immense data volumes each day. These systems contain confidential information about our customers, employees and shareholders.</p> <p>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 business, reputational damage, litigation and regulatory investigation and penalties.</p> <p>Systems failure impact can have significant operational and financial ramifications if connection is unable to be restored quickly.</p> | <p>Security frameworks: Carclo uses a security password protected firewall to help minimise the risk of fraudsters hacking into the system, implements best practice security solutions to monitor and protect its users and maintains its systems with up-to-date versions of all its major applications.</p> <p>Multi-level security and review: IT management is undertaking 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 activated.</p> <p>Accelerating cloud-based systems and security migration: As part of the Group's new IT strategy we are accelerating migration to cloud-based systems and security for underpinning protection of Group systems as well as cost-efficiency and effectiveness.</p> <p>Reducing Disaster Recovery lead times: The business has a defined Disaster Recovery procedure for the invocation of Disaster Recovery measures in place. 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. The Disaster Recovery solution is formally tested each year and also undergoes several ad hoc restore cycles during each year to ensure readiness.</p> |  |
| <p>4. Treasury risk (funding, liquidity, foreign exchange ("FX"), and banking and pension covenants)</p> <p>On 14 August 2020, the Group concluded a refinancing agreement with the Group's lending bank and its pension trustees which provides lending facilities through to July 2023. The agreement includes a number of financial covenants which are normal for facilities of this type. The covenant tests are expected to be met.</p> <p>Carclo plc can draw down on a £3.5 million UK revolving credit facility committed by HSBC until 31 July 2023. UK liquidity has to be managed through this facility.</p> <p>There are covenants over interest cover, net leverage, core subsidiary revenue and core subsidiary EBITA in respect of the agreed £38 million committed debt facility. These are tested quarterly.</p> <p>A fifth covenant is in favour of the Carclo Group Pension Scheme in respect of the Group's defined benefit pension liabilities to current and former employees.</p> <p>Breach of any of these covenants could lead to these creditors calling in their debts, leaving the plc insolvent.</p> <p>In terms of foreign exchange ("FX") risk, Carclo plc has GBP-denominated debt to the pension scheme and the bank in the UK but most of its income is ultimately generated in foreign currencies by subsidiaries outside of the UK.</p> <p>Should GBP appreciate against other currencies then it will make debt service less affordable, however a large portion of Group income streams are in the same foreign currencies as the bank debt, providing a substantial natural FX hedge.</p> <p>Further strengthening of GBP against the subsidiaries' functional currencies creates a risk to P&L forecasts.</p> <p>Potential interest rates inflation could also increase debt servicing costs by approximately £0.1 million for each 0.25% interest rate increase.</p> | <p>Weekly cash planning and monitoring: Group management monitor liquidity across all regions through a rolling 13-week cash forecast and over the medium term through bi-annual three-year forecasting, while maintaining a regular dialogue with the principal banker.</p> <p>New covenants results and projections met: Bank and pension covenants have been met continuously since establishing the initial £38 million bank debt facilities in August 2020. At 31 March 2021, the facility available is £35.6 million, comprising £32.1 million term loan facility and £3.5 million revolving credit facility. Group cash headroom at 31 March 2021 against bank facilities was high at over £15 million and net debt excluding lease liabilities was £20.5 million.</p> <p>Current forecasts for the financial year to March 2022 indicated covenants would be met under the new year budget assumptions.</p> <p>Monthly/quarterly compliance monitoring: Covenant compliance is reported monthly to the bank and pension scheme trustees in tripartite reports and is reviewed alongside Company performance regularly in tripartite quarterly management meetings with the Executive Chairman and CFO.</p> <p>Value Creation Plan: Since the year end, the Company has presented at the request of the bank and trustees, a Value Creation Plan ("VCP") setting out its Group budget, three-year plan and long range ten-year strategic plans, as well as contingency plans in the event of breach, providing assurance of risk management plans.</p> <p>FX - Monthly projection monitoring: Annual financial forecasts are monitored for exchange risk on a monthly basis.</p> <p>Divisional FX hedging accountability: FX risk is managed at subsidiary level through natural hedges or forward contracts where necessary and 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.</p> <p>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.</p> <p>Multi-currency bank loan debt hedging in place (13.3 million USD and 4.9 million euro debt held in currency), providing an FX risk-reducing hedge on over half of current net debt levels against accumulating USD-denominated income during the year.</p> <p>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 any appropriate hedges are appropriate. The main mitigation to inflationary impact is to manage working capital and capital expenditure effectively and accordingly within the regular rolling weekly and monthly treasury and covenant forecasts undertaken.</p> |  |

Risks

5. 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. If there was insufficient ability for overseas subsidiaries to repatriate cash to the plc then it could create a liquidity shortfall.

6. 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 £167.4 million at 31 March 2021 (2020: £172.8 million), with an IAS 19 accounting deficit at 31 March 2021 of £37.3 million (2020: £37.6 million).

The triennial actuarial pension valuation deficit of £90.4 million as at 31 March 2018 was agreed as part of the refinancing arrangement concluded on 14 August 2020 in which the Group agreed to a pension deficit recovery plan comprising contributions of £2.8 million in the year to 31 March 2021 and of the following amounts scheduled for the next two years: £3.9 million (2022) and £3.8 million (2023).

The Group expects it will be able to fund the contributions determined in the refinancing agreement.

Whilst the interests of the Group and the pension fund trustees are aligned in agreeing an affordable schedule of deficit repair contributions from August 2023, 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.

Mitigation

Monitoring: The Group generally aims to generate sufficient cash to cover holding company shortfalls, 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 bi-annual three-year forecasting.

Inter-company charge processes in place: Cash is regularly remitted to the UK from subsidiaries from trading income, royalties and management service recharges, such as IT, Group Finance and management. 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 provides appropriate technical and legal guidance on inter-company trading, charges, and managing the appropriate and effective payment and receipt of inter-company cash.

Trustee liaison: The Group fully and regularly engages with the Scheme 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, trustees and Company.

Deficit reduction initiatives: The Group works with the trustees on deficit reduction initiatives. The Group in recent years offered eligible pensioners the option to switch from a pension with indexed-linked pension increases to a higher fixed pension with no future increases.

The Company in conjunction with the trustees introduced in March 2021 a Bridging Pension Option which will reduce the accounting (IAS 19) calculation of the scheme deficit and may potentially also reduce the scheme liabilities on the trustees' technical provisions.



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.

Change



PRINCIPAL RISKS AND UNCERTAINTIES continued

| Risks | Mitigation | Change |
|---|--|---|
| <p>7. Reliance on major customers and credit risk</p> <p>A substantial part of the Group's revenue is concentrated in a relatively small number of large customers. One risk of relying on a small customer base is the potential impact to the Group of losing either current or future business as a result of underperformance.</p> <p>The largest concentration of customer risk is at the India plant with predominantly one large global customer.</p> <p>Credit risk is expected to increase generally as a result of the pandemic.</p> <p>Aerospace concentration of business has been felt more sharply from the COVID-19 impact on the sector. While our main customers are substantial global leaders, product demand has dropped and is expected to take some time to recover while the sector rebuilds.</p> | <p>Customer service and delivery: Management aim to mitigate this risk by continued focus on customer service and operational performance.</p> <p>Credit insurance: There does remain an associated risk in the potential loss of such customers either through competitive pressures, relocation or their insolvency. Such risks are mitigated through being able to offer world-class quality and costs, flexibility in manufacturing location and, in the case of insolvency, through the application of credit insurance across the Group. Management work closely with Carclo's insurance brokers to assess potential changes to risk levels in our customer base caused by the economic impacts of COVID-19.</p> <p>Blue-chip customer concentration: 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.</p> <p>Focusing on these key customers brings significant opportunities to develop in low-cost regions and enhance the customers' products through our own technologies.</p> <p>In addition, we continue to upgrade individual facilities to better enable them to diversify into other markets.</p> <p>Low bad debt experience: The level of bad debts experienced in the year under review, and the prior year, were negligible.</p> <p>Diversification of business is being sought longer term where concentration levels are most high, such as India. This will take time to develop.</p> |  |
| <p>8. Operational execution risk and management bandwidth/dependence on key individuals</p> <p>The Technical Plastics division has won new multiple major tooling and supply contracts and is looking to expand further.</p> <p>If these are not well executed, they will absorb management time, impact customer relationships and hinder forecast earnings growth and cash.</p> <p>Group project management controls are experienced at managing these factors although some less controllable external short-term pressures, such as scarcity of US labour in local markets where some states continue to finance labour markets, can slow down new labour availability and training.</p> <p>The management of the Group has been stretched following the restructuring, and after streamlining and refocusing of the Group over the last two years.</p> <p>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 are no longer present.</p> | <p>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.</p> <p>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.</p> <p>Streamlining and stabilising the business: The restructuring has resulted in some medium-term stability following the agreements with the bank and pension scheme and the successful exit of Wipac. This is giving the business a good opportunity to stabilise and develop cover for key operations and management. US labour costs to recruit and train may increase in the short term until local government support for COVID-19 affected labour markets is reduced and labour availability improves.</p> <p>There has been some positive progress towards achieving a steady, business-as-usual state but there remains much work to do in addition to seeing through the ongoing COVID-19 pandemic.</p> <p>Personal development and objectives planning: The Group has also commenced roll out of more detailed and formal Personal Objectives, Development and Performance planning and reporting.</p> <p>This will significantly strengthen areas of weakness in execution risk.</p> <p>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 owner and reporting managers and the use of operational KPIs reporting and monitoring.</p> |  |

VIABILITY STATEMENT

The Board has assessed the viability of the Group over a three-year period 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 2022 and the forecasts for the years ending 31 March 2023 and 31 March 2024. The Board has also taken into account the post balance sheet event benefit confirmed on 5 May 2021 of the US Government forgiveness of the \$2.9 million Stimulus Loan received on 14 April 2020 under the Paycheck Protection Program, as implemented under the US Coronavirus Aid, Relief, and Economic Security Act. The forgiveness of the loan has converted the amount since the balance sheet date into grant income.

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 14 August 2020 Carclo plc concluded a restructuring with the Company's main creditors being its bank, HSBC, and the pension scheme to secure the continued support of those parties through to July 2023. Built into the agreements are the commitments that by 30 June 2022, Carclo will have agreed a) a refinancing of its Lender Facilities to extend to July 2026, and b) a Schedule of Contributions with the trustees to cover "Pension Protection Fund ("PPF") Drift" reflecting pension scheme funding requirements in connection with the actuarial valuation of the scheme as at 31 March 2021.

Key to the Group's viability, in addition to securing continuity of lending facilities, is that the pension scheme continues to support the Group. The Group is working closely with the pension scheme trustees to ensure that this continues to be the case, and the current level of pension contributions required is set through to July 2023.

The debt facilities made available to the Group comprised a term loan of £34.5 million, of which £3.0 million will be repaid by 30 September 2022, and a £3.5 million revolving credit facility maturing on 31 July 2023. Repayments amounting to £1.6 million have been made in the period to 31 March 2021 (these are not part of the £3 million due to be repaid by 30 September 2022). In accordance with the agreement, as repayments are made, the term loan facility reduces first, meaning that, at 31 March 2021, the term loan facility available is £32.1 million. £3.5 million remains available on the revolving credit facility.

The tripartite agreement with lenders and the pension scheme of 14 August 2020 also set out the schedule of defined benefit pension scheme deficit repair contributions comprising contributions in 2020/21 of £2.8 million, £3.9 million during the year to 31 March 2022 and £3.8 million in the year ending March 2023. The Directors have assessed that all contributions and bank repayments are affordable throughout the three-year period and are reflected in the covenant projections.

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. 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 on 1 May each year up to and including 2023, the terms of which are expected to be complied with under the current management projections. In FY21 the test was met by the payment of the agreed schedule of contributions. In subsequent years the test requires any shortfall of pension deficit recovery contributions when measured against PPF 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 businesses based on an EBITDA multiple for those businesses which is to be determined annually. Based on management's current best estimate of PPF priority drift in combination with the base case, this test is expected to be satisfied for all relevant periods.

The next triennial actuarial assessment of the Group's defined benefit pension scheme liability will be prepared as at 31 March 2021 and associated deficit repair contributions must be agreed by the Group and the pension fund trustees by June 2022. The associated deficit repair contributions would continue to be applied following maturity of the current financing agreement on 31 July 2023. For the purpose of the latest actuarial valuation (as at 31 March 2018) the scheme actuary has calculated the technical provisions deficit to be £90.4 million; this deficit has increased from the previous valuation deficit (as at 31 March 2015) of £46.1 million. In the context of the profitability and the cash generation of the Group this is a major liability.

VIABILITY STATEMENT continued

Whilst the interests of the Group and the pension fund trustees are aligned in agreeing an affordable schedule of deficit repair contributions from August 2023, it cannot be held certain that this will be achieved, and there remains a risk that the Pensions Regulator may impose conditions on the Group that the Directors deem to be unaffordable. In order to mitigate this risk, the Board continues to work closely with the pension scheme trustees to explore options to reduce the liabilities and the risk associated with the defined benefit pension scheme.

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.

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 described above, and consideration of the principal risks and uncertainties and mitigation plans as set out in the annual report, they have concluded that there are no others of a significantly material nature.

The Directors reviewed sensitivity testing based on a number of reasonably possible scenarios, taking into account the current view of impacts of the continuing COVID-19 pandemic on the Group, and possible political uncertainty, including the impact of change in the US administration, Brexit and other possible overseas trading issues.

Sensitivities modelled included a range of scenarios modelling the annual 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 5% matched by a corresponding fall in cost of sales of the same amount, the loss of COVID-related sales from large customers, delays in the timing of commencement of significant medical projects, reduction in revenue from specific customers, minimum wage increases and exchange risk. These sensitivities attempt to incorporate the risks arising from national and regional impacts of the global pandemic from local lockdowns, impacts on manufacturing and supply chain and other potential increases to direct and indirect costs. The Group has the capacity to take mitigating actions to ensure that the Group remains financially viable, including further reducing operating expenditures as necessary. 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 29 June 2021 and signed on its behalf by:



Nick Sanders

Executive Chairman



Phil White

Chief Financial Officer

CHAIRMAN'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.

Nick Sanders
Executive Chairman

The statement of corporate governance practices set out on pages 40 to 43, 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 2021. 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 August 2020, 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.

The Board took an important step forward in improving its governance processes with the appointment of an experienced and dedicated Company Secretary in October 2019.

As in prior years, an internal evaluation of the Board and each of its Committees has been undertaken. 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.

Nonetheless, the Board also identified areas to focus on in the coming year, including: improving the information provided to the Board so it is better able to assess the Group's operational performance; increasing focus on medium and long-term strategy; and improving the assessment of senior leadership in the Group and development of better succession planning. In line with best practice, consideration is being given to undertaking next year's evaluation using an external consultant.

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 corporate social responsibility report on pages 20 to 23.

CHAIRMAN'S INTRODUCTION continued

Dear shareholder continued

From April to September 2020, Joe Oatley acted as Non-Executive Chairman whilst the search for a permanent Chairman was underway. The Board is extremely grateful for Joe's service in that time and was pleased he subsequently took on the role as Senior Independent Non-Executive Director. I was appointed to the Board in August 2020 and following a Board restructure announced on 5 October 2020, was appointed as Executive Chairman from that date. The Executive Team and Board was further strengthened by the appointment of Phil White as CFO in March 2021.

Peter Slabbert and David Toohey indicated their intention not to seek re-election after both serving six years, and retired from the Board on 31 March 2021 and 30 April 2021 respectively. I would like to thank both Peter and David for their contribution to the business over the years.

Eric Hutchinson and Frank Doorenbosch were appointed to the Board as Non-Executive Directors on 7 January 2021 and 1 February 2021 respectively. They bring a wealth of business and specific industry experience that will be invaluable going forward and I look forward to working with them together with Joe and Phil to shape the future of Carclo.

Our corporate governance report is set out on pages 35 to 72 and incorporates the Audit Committee report on pages 44 to 46, the Nomination Committee report on pages 47 to 49 and the Directors' remuneration report on pages 50 to 68.

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 36.



Nick Sanders
Executive Chairman

29 June 2021

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 Provisions 9 (separate roles of Chair and CEO) and 21 (external Board evaluation every three years) and further details are contained within this report on pages 40 and 41.

Principle

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.

Principle 02:

Division of responsibilities

The Board comprises two Executive Directors and three independent Non-Executive Directors ("NEDs"). The Board has an Executive Chairman. The key roles and responsibilities of the members of the Board, including the division of responsibilities between the Executive Chairman and Senior Independent Non-Executive Director, are discussed on pages 37 and 40.

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.

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 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.

Principle 05:

Remuneration

The Remuneration Committee formally assists the Board in discharging its responsibilities in relation to Executive Director remuneration. The Board will be seeking approval of its revised Remuneration Policy at the 2021 Annual General Meeting.

How Carclo has applied it

Read how Carclo plc has applied and discussed **Principle 01** of the corporate governance framework in the **statement of corporate governance** on **pages 40 to 43**.

Read how Carclo plc has applied and discussed **Principle 02** of the corporate governance framework in the **statement of corporate governance** on **pages 40 to 43**.

Read how Carclo plc has applied and discussed **Principle 03** of the corporate governance framework in the **Nomination Committee report** on **pages 47 to 49**. Details of the methodology used in the 2020 **Evaluation of Board effectiveness** can be found on **page 41**.

Read how Carclo plc has applied and discussed **Principle 04** of the corporate governance framework in the **Audit Committee report** on **pages 44 to 46**. **Principal risks** faced by the Company can be found on **pages 28 to 32**.

Read how Carclo plc has applied and discussed **Principle 05** of the corporate governance framework in the **Directors' remuneration report** on **pages 50 to 68**. The Board's **Remuneration Policy** can be found on **pages 53 to 60**.

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, 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 Committee

Key responsibilities:

The Audit 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 Chairman, 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.

Representatives from Finance, IT and HR also attend the Committee meetings.

The purpose of the Committee is to assist the Executive Chairman 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;
- the prioritisation and allocation of resources; and
- monitoring competitive forces in each area of operation.

BOARD OF DIRECTORS



Nick Sanders

Executive
Chairman

Nick was appointed a Non-Executive Director and Chairman-elect of the Company from 18 August 2020. On 30 September 2020, Nick was appointed as Non-Executive Chairman. On 5 October 2020, Nick was appointed as Executive Chairman of the Company.

Skills and experience

Nick is an engineer by training and has over 20 years' board experience in UK and international businesses. His early career was spent in a variety of technical and operational roles at Rolls-Royce and Lucas Aerospace and since 2002 he has been leading turnaround situations in aerospace and manufacturing businesses. In this capacity he served as Executive Chairman of Gardner Aerospace for nine years until 2019. Nick was also a founding partner of Better Capital LLP (advisors to the turnaround funds).

External appointments

Sertec Group – Non-Executive Chairman
Doncasters – Non-Executive Director
Cashewglen Limited – Non-Executive Chairman

Committees



Phil White

Chief Financial
Officer

Phil was appointed Chief Financial Officer on 1 March 2021.

Skills and experience

Phil is a Cambridge graduate Chartered Accountant and Chair of the Institute for Turnaround North-East region. Over three decades he has held permanent and interim CFO, FD and senior roles across listed and private companies including Mpac plc, Optare plc, UK Coal plc, the Unipart Group, gsk plc, Wella, Jacuzzi and Sheffield Forgemasters.



Joe Oatley

Senior Independent
Non-Executive Director

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

Skills and experience

Joe is currently also a Non-Executive Director at Wates Group Limited and 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. Prior to this, Joe spent the majority 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 – Non-Executive Director
Centurion Group Limited – Non-Executive Director
Buchanan – member of Advisory Board

Committees





Eric Hutchinson

Independent
Non-Executive Director

Eric was appointed a Non-Executive Director of the Company on 7 January 2021 and Chair of the Audit Committee from 1 March 2021.

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 Communication plc, the London listed Data Communications specialist. At Spirent he spent thirteen 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.

Committees

A R N



Frank Doorenbosch

Independent
Non-Executive Director

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

Skills and experience

Frank has spent nearly his whole 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 holds a Doctorate in Management and Organisation.

External appointments

Thingtrax Limited – Non-Executive Director

Committees

R A N

Key:

- A** Audit Committee
- N** Nomination Committee
- R** Remuneration Committee
- Committee Chair



Angie Wakes

Company Secretary

Angie was appointed as Group Company Secretary in October 2019 and is a fellow of The Chartered Governance Institute. Angie has previously held a number of Deputy Company Secretary roles for listed companies.

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 and 21, explained on page 36. 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 comprises the Executive Chairman, the Chief Financial Officer and three other Non-Executive Directors.

Antony Collins stepped down as a Director and interim Chief Executive Officer on 5 October 2020. Nick Sanders was appointed to the Board on 18 August 2020 and became Executive Chairman on 5 October 2020.

Matt Durkin-Jones stepped down as a Director and interim Chief Financial Officer on 17 December 2020 and Phil White was appointed a Director and Chief Financial Officer on 1 March 2021. Peter Slabbert stepped down as a Non-Executive Director on 31 March 2021 and David Toohey stepped down as a Non-Executive Director on 30 April 2021. Eric Hutchinson was appointed a Non-Executive Director on 7 January 2021 and Frank Doorenbosch was appointed a Non-Executive Director on 1 February 2021.

Under the Company's articles of association, all Directors must offer themselves for re-election at least once every three years. However, in accordance with developing best governance practice, all Directors normally seek re-election on an annual basis.

The biographies of all the Directors appear on pages 38 and 39.

The Chairman 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.

Whilst the Chairman is performing the role of Executive Chairman, the Senior Independent Non-Executive Director assists with these responsibilities. The Executive Chairman has responsibility for all operational matters and the development and implementation of Group strategy approved by the Board.

The Chairman 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. Joe Oatley, as Senior Independent Non-Executive Director, is available to shareholders if they have concerns which have not been resolved through the normal channels of Executive Chairman.

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

During the year, one in which the ongoing challenges faced by the Group resulted in a significant increase in the need for Board meetings, attendance by Directors at meetings of the Board and its various Committees was as follows:

| | Board meetings | | Remuneration | | Audit | | Nomination | |
|----------------|----------------|--------------|--------------|--------------|----------|--------------|------------|--------------|
| | No. held | No. attended | No. held | No. attended | No. held | No. attended | No. held | No. attended |
| J Oatley | 36 | 31 | 12 | 11 | 4 | 4 | 13 | 12 |
| A Collins | 21 | 19 | — | — | — | — | — | — |
| M Durkin-Jones | 29 | 26 | — | — | — | — | — | — |
| P Slabbert | 36 | 30 | 12 | 12 | 10 | 10 | 13 | 13 |
| D Toohey | 36 | 29 | 12 | 12 | 10 | 10 | 13 | 12 |
| N Sanders | 19 | 19 | — | — | — | — | 6 | 6 |
| P White | 2 | 2 | — | — | — | — | — | — |
| E Hutchinson | 5 | 4 | 3 | 3 | 2 | 2 | 2 | 2 |
| F Doorenbosch | 4 | 3 | 3 | 3 | 2 | 2 | 2 | 2 |

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.

It was not possible to undertake any offsite Board meetings in the financial year due to COVID-19 restrictions. The Board intends to recommence offsite Board meetings once travel restrictions are lifted.

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.

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

The Senior Independent Non-Executive Director supervised an internal evaluation of the Board's performance and that of its principal Committees. In addition, an evaluation of the performance of individual Directors was also undertaken by the Senior Independent Director.

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 the Senior Independent Non-Executive Director and will form the basis of Board objectives for 2021/22, including:

- improving the information provided to the Board so it is better able to assess the Group's operational performance;
- increasing focus on medium and long-term strategy; and
- improving the assessment of senior leadership in the Group and development of better succession planning.

The Code requires that the Board should hold an externally facilitated evaluation at least every three years, which was due in 2019/20. Due to the number of changes on the Board over the period, the Board concluded that it would be preferable to delay the externally facilitated evaluation and instead carried out a comprehensive internal evaluation. It is expected that an externally facilitated evaluation will take place in 2021/22.

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 has adopted the process whereby each of its Non-Executive Directors is a designated director to engage with the workforce at each of Carclo's UK largest operating sites and Head Office. It was not possible to undertake any further workforce meetings in the financial year due to COVID-19 restrictions. The Non-Executive Directors intend to recommence such workforce meetings once travel restrictions are lifted.

Board Committees

The Board has three Committees, Nomination, Remuneration and Audit, 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 chairmen and members of the Committees are entitled to be present at Committee meetings, but others may attend by invitation.

STATEMENT OF CORPORATE GOVERNANCE continued

Board Committees continued

Nomination Committee

The Nomination Committee comprises the Non-Executive Directors including the Executive Chairman.

The Committee is chaired by the Senior Independent Non-Executive Director 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 13 times to discuss Board performance and new appointments to the Board.

Remuneration Committee

The Company has established a Remuneration Committee consisting entirely of independent Non-Executive Directors. The Remuneration Committee met twelve times during the year and was chaired by David Toohey until 30 April 2021, when Frank Doorenbosch was appointed Chair.

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 50 to 68 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 Committee

The Audit Committee comprises all the Non-Executive Directors excluding the Executive Chairman and meets not less than three times annually. During the year the Committee was chaired by Peter Slabbert who, as a Chartered Accountant and being the former group finance director of Avon Rubber plc until his appointment as chief executive in April 2008, has both recent and relevant financial experience. Eric Hutchinson took over as Chair, who, being a Chartered Certified Accountant and former group CFO of Spirent Communication 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 Executive Chairman and Chief Financial Officer.

The Audit 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;
- reviews 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;

- assists 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
- reviews half-year and annual accounts before their submission to the Board and reviews reports from the external and internal auditors.

The Audit Committee report is set out on pages 44 to 46.

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 Executive Chairman and comprises the Chief Financial Officer together with the heads of each business division. The Company Secretary acts as Secretary to the Committee. Representatives from Finance, IT and HR also attend the Committee meetings. The Committee was re-established in February 2020 and has met on a monthly basis since that date. 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 2021, 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 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.

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 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 a Group 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 Committee.

This process forms part of the Audit 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 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 Executive Chairman and the Non-Executive Directors are available for separate discussions if required. The Executive Chairman held meetings with several 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.

Significant shareholder dissent

At the 2020 AGM there were three proposed resolutions that although passed by shareholders, there was a lower level of support for them. The Board subsequently engaged in discussions with its principal shareholders and understood this was largely attributable to the business and share price performance over the past year.

Structure of the Company's capital

Details of the structure of the Company's capital are set out in the Directors' report on pages 70 and 71.

By order of the Board



Angie Wakes

Secretary

29 June 2021

AUDIT COMMITTEE REPORT



Eric Hutchinson

Chair of the Audit Committee

Annual statement by the Chair of the Audit Committee

The Audit 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 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.

The Audit 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 Committee comprises all the Non-Executive Directors excluding the Executive Chairman and meets not less than three times annually. During the year in question, the Committee was chaired by Peter Slabbert until 1 March 2021, when Eric Hutchinson took over as Chair, who, being a Chartered Certified Accountant and former group CFO of Spirent Communication 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 Committee members are entitled to attend a meeting. However, the Executive Chairman and Chief Financial Officer are normally invited to attend meetings.

Ten 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 Committee and their effectiveness assessed through oral and written reports from both internal and external auditors.

The risk management process has been improved and no failings have been identified this year. However, with the multiple changes in the Executive management team, the improvements had yet to become fully implemented during the reporting period.

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 28 to 32 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, although the extent of the programme was curtailed again this year due to restrictions arising from COVID-19. 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.

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

In the year to 31 March 2021, 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 2020/21 financial year is included on pages 33 and 34.

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 £204.7 million and assets of approximately £167.4 million as at 31 March 2021. These numbers are sensitive to the main assumptions used to calculate the deficit or surplus on the scheme and the Audit Committee seeks confirmation that these assumptions are appropriate. A Bridging Pension Option (BPO) was introduced in the year to 31 March 2021 with rule change and member announcement creating a legal and constructive obligation and thus constituting a plan amendment. Having taken actuarial advice, the Executive management has exercised judgement that 40% of members will take the BPO. This estimate impacts on the past service credit recognised as an exceptional item in the income statement. The Audit Committee bases its assurance of the management judgement of the BPO take-up percentage estimate from the actuarial advice received;

AUDIT COMMITTEE REPORT continued

Significant issues related to financial statements continued

- the Group balance sheet value of goodwill. The balance of goodwill on the Group balance sheet as at 31 March 2021 is £21.1 million and the Audit Committee seeks to gain assurance through the Executive management's review of "value in use" as the approved and selected method in testing goodwill valuation for impairment and that there are no potential impairment or recoverability issues;
- valuation of investments in subsidiary undertakings in the Company balance sheet. Investments in subsidiary undertakings total £93.8 million in the Company balance sheet and the Audit Committee seeks to gain assurance through the Executive management's review of "value in use" as the approved and selected method in testing investments in subsidiary undertakings for impairment and that there are no potential impairment or recoverability issues; and
- going concern. The Audit 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.

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 against which to offset future tax deductions. No deferred tax assets have been recognised in the UK entities as the central costs are considered likely to offset the trading profits. The Committee agreed with this approach;
- classification of exceptional items. Certain items during the period have been presented as exceptional items 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;

- revenue recognition on certain customer contracts. The Audit Committee has supported the Group management's methodology and application of revenue recognition applying IFRS 15 guidelines across its portfolio of contracts; and
- non-adjusting post-balance sheet events. On 5 May 2021 the US Government notified CTP USA of forgiveness of its \$2.9 million loan provided in April 2020 in the form of a Paycheck Protection Program ("PPP") as part of the CARES Act. The Audit Committee agreed that the loan forgiveness was not reasonably expected at the balance sheet date of 31 March 2021, such that the recognition of the loan forgiveness as grant income after the balance sheet date is appropriate as a non-adjusting balance sheet event.

The Committee considered whether the 2020/21 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 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 Committee last initiated a tender process in December 2019.

At the conclusion of the process, the Audit Committee (having consulted with management) recommended to the Board that Mazars LLP be appointed as external auditor immediately for the 2019/20 financial year.

The Board accepted the Audit Committee's recommendation to appoint Mazars LLP as external auditor on a casual vacancy basis and this was announced on 14 April 2020. 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 2021 and the nature of the non-audit services provided appear in note 8 in the accounts. Non-audit fees totalled £0.032 million. 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.

The Committee discussed with the auditors the report of the FRC's Audit Quality Review team in respect of the audit for the year ended 31 March 2020, there were no key findings arising from that review.

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 Committee

29 June 2021

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 and the Executive Chairman. It is currently chaired by the Senior Independent Non-Executive Director, Joe Oatley. The Committee met on thirteen 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 2020/21 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.

This has been particularly relevant in the last twelve months with changes to both the structure and constituents of the Board. Following the review, the Committee was satisfied that the Board continues to have an appropriate mix of skills and experience to operate effectively.

NOMINATION COMMITTEE REPORT continued

Skills and knowledge of the Board continued

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 activities in FY21

The key deliverables of the Committee were:

- review of the structure and composition of the Board;
- the search and selection process for, and the appointment of, Nick Sanders as Executive Chairman;
- the search and selection process for, and the appointment of, Phil White as Chief Financial Officer;
- the search and selection process for, and the appointment of two new Non-Executive Directors (Eric Hutchinson and Frank Doorenbosch);
- the induction of the new Executive Directors and Non-Executive Directors;
- oversaw the internal Board evaluation process;
- a review of the Committee's terms of reference;
- 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

Following the departure of Mark Rollins, Non-executive Chairman, in March 2020, the Board appointed Joe Oatley who served as Interim Non-Executive Chairman until October 2020. During this period the Committee reviewed the structure and composition of the Board and determined that the optimal structure for the current stage of evolution of the Group was to streamline the Board structure by removing the role of Chief Executive and replacing the role of Non-Executive Chairman with that of Executive Chairman.

The Board believes that, given the size of the Group and that a significant majority of the Group's activities are contained within the Technical Plastics division, this structure is currently the most efficient and effective in order to deliver the Group's strategy and thus create shareholder value. In particular, this structure enables the Board members to be closer to the Group's operations and thus improve the pace and effectiveness of decision-making. The Committee concluded that having three other Non-Executive Directors remained optimal with the Senior Independent Director taking on additional responsibility to provide an oversight of corporate governance.

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.

There have been a number of new appointments to the Board in the last twelve months and in all cases the Committee initiated a rigorous recruitment process, using Korn Ferry to ensure a comprehensive search of the market was carried out. Korn Ferry is signed up to the Hampton Alexander voluntary code of conduct on gender diversity and, aside from assisting with recruitment, has no connection with the Group or individual Directors.

Appointment of new Executive Directors

Nick Sanders was appointed as the Executive Chairman on 5 October 2020, bringing a wealth of experience to the leadership of the Group, in particular in turnaround of manufacturing businesses.

Phil White was appointed as the Chief Financial Officer on 1 March 2021 following the stepping down of Matt Durkin-Jones at the end of his period as interim Chief Financial Officer.

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.

Peter Slabbert and David Toohey indicated their intention not to seek re-election after both serving six years, and retired from the Board on 31 March 2021 and 30 April 2021 respectively.

Eric Hutchinson and Frank Doorenbosch were appointed to the Board on 7 January 2021 and 1 February 2021 respectively. They bring a wealth of business and specific industry experience that will be invaluable going forward.

Induction of new Directors

All new Directors go through a tailored induction process. During the year, Nick Sanders, Phil White, Eric Hutchinson and Frank Doorenbosch were appointed and each went through a thorough induction process. It is usual process as part of their induction for comprehensive site visits to be undertaken; however, this was not possible due to COVID-19 restrictions. Nick visited the Mitcham and Aylesbury sites of CTP and Head Office in 2020 and the Aerospace site in Scotland in April 2021 and Frank visited the CTP Pennsylvania, US site in March 2021, meeting with local management and discussing a range of matters, in particular strategy, and health and safety. All Directors intend to recommence visits once travel restrictions are lifted.

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 should hold an externally facilitated evaluation at least every three years, which was due in 2019/20. Due to the number of changes on the Board at the time the review would have taken place in 2020/21, the Board concluded that it would be preferable to delay the externally facilitated evaluation and instead carried out a comprehensive internal evaluation led by the Senior Independent Director. As set out in more detail in the statement of corporate governance on page 41, the review concluded that, whilst the Board had led the Group effectively through a very challenging period, there were nonetheless a number of areas where improvement was needed. Recommendations for the future included a review of strategy, a focus on improving the quality and timeliness of Board and Committee papers, and building on succession planning and organisational design and development.

These are areas of focus during the coming year. It is expected that an externally facilitated evaluation will take place in 2021/22. The review also concluded that the Nomination Committee had operated effectively.

A review of the performance of the Executive Chairman and other Non-Executive Directors was also facilitated by the Senior Independent Director.

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. Phil White, Eric Hutchinson and Frank Doorenbosch were appointed by the Board after the 2020 AGM and therefore will retire and offer themselves for election by shareholders at the forthcoming AGM.

The Articles provide that one-third of Directors shall retire by rotation each year and are eligible for re-election by shareholders at the AGM. In accordance with the Code, the Company will continue its practice to propose all Directors for annual re-election.

Accordingly, Nick Sanders and I will retire at the forthcoming AGM and, being eligible, will offer ourselves up for re-election.

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

The election and 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 59.

During the year, the Non-Executive Chairman (prior to the appointment of the Executive Chairman) and the Senior Independent Non-Executive Director held regular meetings with the Non-Executive Directors in the absence of the Executive Directors and, separately, the Senior Independent Director held a meeting with the Non-Executive Directors without the Executive Chairman 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.

Committee priorities for 2021/22

- Oversee the external Board evaluation process to be undertaken.
- Further focus on succession planning.



Joe Oatley

Chair of the Nomination Committee

29 June 2021

DIRECTORS' REMUNERATION REPORT



Frank Doorenbosch

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 2021.

The Report has three sections:

- this Annual Statement, which summarises and explains the major decisions and changes in respect of Directors' remuneration;
- a new Directors' Remuneration Policy (the "Policy") for 2021. The current approved Policy is due for renewal at the 2023 AGM, having last been approved at our 2020 AGM. The Committee has reviewed the current approved Policy and is seeking shareholder approval to some amendments to the Policy. The proposed amendments will strengthen the Group's aim towards governance compliance by aligning Executive Directors' pension contributions in line with the UK general workforce and the introduction of a post-employment shareholding requirement for Executive Directors. The Policy continues to support the Company's strategy and culture; 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 2021 and how the Policy will be operated for the year to 31 March 2022.

The Group's targets for the financial year 2020/21 were set in the very early stages of the pandemic when it was assumed that the recovery from it would occur much sooner than has actually transpired. Nonetheless, the combination of the exceptional efforts of everyone across the business and the Group's exposure to medical markets which have remained relatively robust, has resulted in both profit and cash flow targets for the year being exceeded. 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 was appointed as a Non-Executive Director of the Company and Chairman-elect on 18 August 2020 and was subsequently appointed as Non-Executive Chairman on 30 September 2020. On 30 September 2020, Joe Oatley, who had been acting as Non-Executive Chairman of the Board since 27 April 2020 (following Mark Rollins' departure as Non-Executive Chairman on 24 March 2020), stepped down from that role with immediate effect and resumed his role as a Non-Executive Director. Joe Oatley took over the role of Senior Independent Director from Peter Slabbert on 30 September 2020.

The Company announced on 5 October 2020 that the role of Group CEO was no longer required and Antony Collins, the interim Chief Executive Officer, stepped down from the Board on that date. Nick Sanders, who had been acting as Non-Executive Chairman, was appointed as Executive Chairman with effect from 5 October 2020.

Matt Durkin-Jones, who was appointed as interim Chief Financial Officer and a Director of the Board on 21 January 2020, stepped down from the Board on 17 December 2020. Phil White, who had been acting as interim Chief Financial Officer since 16 December 2020, was appointed as Chief Financial Officer and a Director of the Board on 1 March 2021.

Eric Hutchinson was appointed a Non-Executive Director on 7 January 2021 and took over as Audit Committee Chair with effect from 1 March 2021. Peter Slabbert stepped down as Audit Committee Chair on 1 March 2021 and stepped down from the Board on 31 March 2021.

I was appointed a Non-Executive Director on 1 February 2021 and took over as Remuneration Committee Chair with effect from 30 April 2021. David Toohey stepped down from the Board and as Remuneration Committee Chair on 30 April 2021.

A summary of the principal terms of the Executive Chairman and CFO's remuneration is set out on pages 61 and 62.

2020/21 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. None of the Executive Directors employed during the year received variable elements of remuneration with the exception of P White, who joined the Board on 1 March 2021 and will receive a pro-rata bonus for the period from that date. Under the terms of his current service agreement, N Sanders is not entitled to variable remuneration. The variable element of P White's remuneration in 2020/21 was focused on simple and transparent measures of performance against Group EBIT and operating cash flow targets. Accordingly, this Report should be read in conjunction with the strategic report.

Salary

As set out in the 2019/20 Directors' remuneration report, an internal review concluded that basic salary/fee for senior employees, including Executive and Non-Executive Directors, would not be increased during the financial year 2020/21.

In addition to this and in support of the COVID-19 situation and support of other actions taken to mitigate these challenges, both the Executive and Non-Executive Directors took a voluntary 20% reduction in salaries/fees for the first quarter of the 2020/21 financial year.

Annual bonus

None of A Collins, M Durkin-Jones nor N Sanders participated in the 2020/21 annual bonus scheme. P White, who joined the Board on 1 March 2021, participated in the 2020/21 annual bonus scheme and will receive a pro-rata bonus for the period from when he joined the Board. 100% of the payment was set against demanding financial targets, which are set out in detail on page 63.

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 2020/21 was a challenging year, this resulted in no vesting in relation to the EPS portion of the 2018 award and no vesting in respect of the total shareholder return ("TSR") portion. Consequently, none of the shares subject to the 2018 PSP awards vested.

Neither of the current Executive Directors have outstanding options from the 2018 LTIP award.

As detailed in last year's Directors' remuneration report, the current LTIP scheme was under review to ensure it met the needs of the Company and no LTIP awards were made in 2020/21 with the stated intent to bring forward any required amendments for shareholder approval. Following consideration of the matter and given the recent recovery in share price, the Remuneration Committee has determined that the current LTIP scheme is now fit for purpose and will continue to remain in operation.

Accordingly, the Committee has determined that an absolute TSR target is a more appropriate performance measure than relative TSR. The performance measures for future awards to vest will be equally weighted between EPS and absolute TSR targets. The absolute TSR target will be 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.

Implementation of the Remuneration Policy for the 2021/22 financial year

The current Directors' Remuneration Policy was approved by shareholders at the 2020 AGM and a new Directors' Remuneration Policy will be put to shareholders for approval at this year's AGM. In respect of the implementation of the Policy for the 2021/22 financial year, the Committee agreed that:

- only having recently joined the Company, there will not be a basic salary level increase for either of the Executive Directors. Basic salary level increase awards made to other employees within the Group ranged from 0% to 7%;
- there will be a c.3.5% increase in the base fees for the Non-Executive Directors. Non-Executive Director fees have not been increased since 2019. The 3.5% increase represents an annualised increase of 1.75% when spread over the period since the last increase;
- the structure and quantum of the annual bonus for Executive Directors is considered to be broadly appropriate and aligned to shareholders' interests. For 2021/22 the annual bonus potential will continue to be based on demanding financial targets, however the Executive Chairman does not currently have a bonus entitlement; and

DIRECTORS' REMUNERATION REPORT continued

Implementation of the Remuneration Policy for the 2021/22 financial year continued

- 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. Following a review of that scheme, it is proposed that LTIP grants will be made in 2021/22 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 new Policy being put to shareholders this year. A number of those provisions have already been adopted:

- the Remuneration Committee was responsible for setting senior management pay for the 2021/22 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 shareholder requirement;
- the Remuneration Committee already has the ability to use discretion to override formulaic outcomes; and
- any future Executive Directors which are recruited will receive a pension contribution rate in line with the UK general workforce. The current Executive Chairman and Chief Financial Officer do not have a pension contribution entitlement.

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.



Frank Doorenbosch

Chair of the Remuneration Committee

29 June 2021

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 2021; 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 Policy

The 2021 Remuneration Policy set out below has not materially changed from the current Policy approved in 2020, other than to further improve alignment with the Code. The proposed changes include the introduction of a post-employment shareholding requirement and reduction in employer pension contribution levels. Any comments received from shareholders have been taken into consideration when reviewing the Policy.

The Policy for the remuneration of the Executive and Non-Executive Directors is set out in the table below, with notes explaining the changes from the Policy approved in 2020:

2021 Policy table

| Element of remuneration | Salary |
|-------------------------------------|--|
| Purpose and link to strategy | <p>To provide an appropriate, competitive level of basic fixed income avoiding excessive risk arising from over-reliance on variable income.</p> <p>To retain and attract Executive Directors of superior calibre in order to deliver business growth.</p> <p>Reflects individual skills and experience and role.</p> |
| Operation | <p>Reviewed annually by the Remuneration Committee, normally effective 1 April.</p> <p>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.</p> |
| Maximum | <p>No prescribed maximum annual increase, but will normally be in line with general increase for the wider workforce.</p> <p>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.</p> |
| Performance targets | N/A |
| | No change to policy |
| Element of remuneration | Other benefits |
| Purpose and link to strategy | <p>Provides market-competitive benefits.</p> <p>Provides insured benefits to support the individual and their family during periods of ill health, accident or death.</p> |
| Operation | <p>Benefits provided through third-party providers.</p> <p>Includes car allowance, life insurance, private medical insurance and permanent disability insurance. Other benefits may be provided where appropriate.</p> |
| Maximum | <p>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).</p> |
| Performance targets | N/A |
| | No change to policy |

DIRECTORS' REMUNERATION REPORT continued

Directors' Remuneration Policy continued

2021 Policy table 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 (not currently applicable). 75% of salary CFO. |
| Performance targets | <p>Performance is assessed on an annual basis by reference to financial measures as well as the achievement of personal/strategic objectives. The current financial performance measures are underlying EBITDA and Working Capital Cash Flow, 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%.</p> <p>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.</p> <p>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:</p> <ul style="list-style-type: none"> • 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. |
| No change to policy | |

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 profit 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 measured over three years. Future performance measures will be EPS and absolute TSR targets 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 Company strategy.

During the five-year period following the date of grant the Executive Directors cannot sell the shares subject to the awards (other than to pay the tax liability arising on vesting).

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.

No change to policy

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

Change to policy – the Company contribution to Executive Director pensions has been reduced to align with the UK general workforce.

DIRECTORS' REMUNERATION REPORT continued

Directors' Remuneration Policy continued

2021 Policy table 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 | <p>100% of salary holding for Executive Directors. The Committee will monitor progress against this requirement on an annual basis.</p> <p>A reasonable time limit is considered to be five years.</p> <p>Directors will be required to retain 50% of post-tax PSP vestings as shares for the first five years of their employment. If the required holding has not been achieved by that point the percentage will increase to 75%.</p> <p>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.</p> |
| Performance targets | N/A |
| | Change to policy – introduction of a post-employment shareholding requirement for departing Executive Directors to hold their vested PSP shares up to 100% of salary or their actual PSP derived shareholding if lower, for two years after leaving. |
| 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 |
| | No change to policy |

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 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 increase 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.

No change to policy

Notes to the Policy table

Performance measurement selection

The choice of underlying EBITDA and Working Capital Cash Flow as the financial performance metrics 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 both the delivery of profit growth, cash management and specific individual objectives.

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.

As highlighted above, 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 2021 are set out on page 68.

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:

- i) a lower level of maximum annual bonus opportunity generally applies to employees below Board level;
- ii) Executive Directors carry an obligation to build and maintain a sizeable share-ownership position. No such obligation is held by other employees;
- iii) 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
- iv) 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 wherein 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.

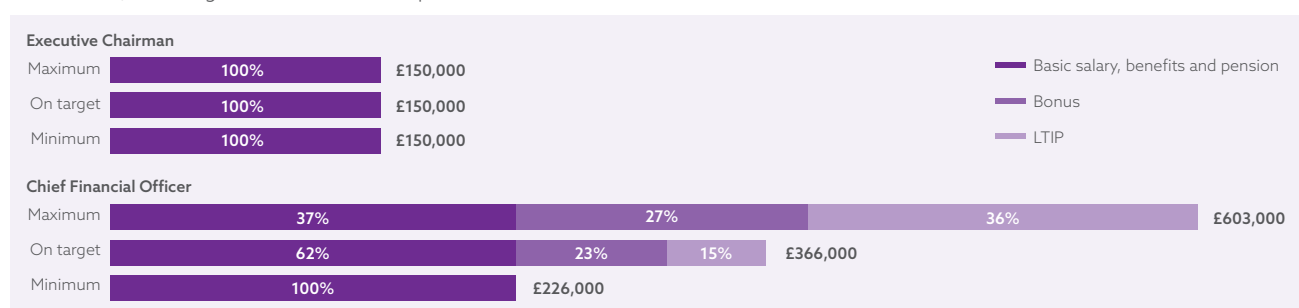
The Policy table summarises the key components of remuneration for the Non-Executive Directors.

DIRECTORS' REMUNERATION REPORT continued

Directors' Remuneration Policy continued

Pay scenario charts

The graphs below provide estimates of the potential future reward opportunity for the two Executive Director positions for the 2021/22 financial year, and the potential split between different elements of remuneration under three different scenarios: "Minimum", "On target" and "Maximum" performance.



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 2021 |
| | Benefits are the current benefits projected for the financial year ahead |

| Name | Base salary £000 | Benefits £000 | Pension £000 | Total fixed £000 |
|------------------------|---------------------|------------------|-----------------|---------------------|
| N Sanders ¹ | 150 | — | — | 150 |
| P White | 215 | 11 | — | 226 |

1. N Sanders receives a fixed salary only and is not entitled to any other benefits, bonus or LTIP.

| On target | |
|-----------|---|
| | Based on remuneration if performance was in line with expectations |
| | Annual performance bonus for 40% – P White 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% – P White 75% of base salary |
| | LTIP assumes maximum PSP vesting (100% 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 (not currently applicable) 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.

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 |
|--------------------|-------------------------|----------------------------|----------------------------|-----------------------------|
| N Sanders | Executive Chairman | 5 October 2020 | 6 months | 6 months |
| P White | Chief Financial Officer | 1 March 2021 | 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 2021 | Date of appointment | Last re-appointment at AGM |
|------------------------|----------------------------|------------------------------------|---------------------|----------------------------|
| J Oatley | 24 June 2021 | To 2021 AGM | 20 July 2018 | 29 September 2020 |
| E Hutchinson | 21 December 2020 | To 2021 AGM | 7 January 2021 | n/a |
| F Doorenbosch | 11 January 2021 | To 2021 AGM | 1 February 2021 | n/a |

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 24 June 2021 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.

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.

DIRECTORS' REMUNERATION REPORT continued

Directors' Remuneration Policy continued

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.

Annual Report on Remuneration

The following section provides details of how Carclo's Remuneration Policy was implemented during the financial year ending 31 March 2021.

Remuneration Committee membership in 2020/21

The Remuneration Committee currently comprises of J Oatley, E Hutchinson and F Doorenbosch. The Committee is currently chaired by F Doorenbosch. P Slabbert was a member until 31 March 2021 when he stepped down from the Board. D Toohey was a member and Chairman of the Committee until 30 April 2021 when he stepped down from the Board.

The Committee met twelve times during the financial year ended 31 March 2021 and individual Committee members attended all meetings held during the year under review.

During the year, the Committee sought internal support from the previous Chief Executive, Executive Chairman and Chief Financial Officer who attended Committee meetings by invitation from the Remuneration Committee Chairman, to advise on specific questions raised by the Committee and on matters relating to the performance and remuneration of senior managers. The previous Chief Executive, Executive Chairman 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 £5,100 fees were paid to Mercer Limited 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 2019/20 remuneration report at the 2020 AGM:

| | Total number of votes | % of votes cast |
|---|--------------------------|--------------------|
| For (including discretionary) | 14,345,692 | 80.12 |
| Against | 3,559,372 | 19.88 |
| Total votes cast (excluding withheld votes) | 17,905,064 | 100.00 |
| Votes withheld | 781,671 | |
| Total votes cast (including withheld votes) | 18,686,735 | |

The following table shows the results of the shareholder vote on the Remuneration Policy at the 2020 AGM:

| | Total number of votes | % of votes cast |
|---|--------------------------|--------------------|
| For (including discretionary) | 14,002,372 | 76.26 |
| Against | 4,357,842 | 23.74 |
| Total votes cast (excluding withheld votes) | 18,360,214 | 100.00 |
| Votes withheld | 326,521 | |
| Total votes cast (including withheld votes) | 18,686,735 | |

Executive Director changes

The Company announced on 5 October 2020 that the role of Group CEO was no longer required and Antony Collins, the interim Chief Executive Officer, stepped down from the Board on that date. Nick Sanders, who had been acting as Non-Executive Chairman, was appointed as Executive Chairman with effect from 5 October 2020.

Matt Durkin-Jones, who was appointed on 21 January 2020 as interim Chief Financial Officer and a Director of the Board, stepped down from the Board on 17 December 2020. Phil White, who had been acting as interim Chief Financial Officer since 16 December 2020, was appointed as Chief Financial Officer and a Director of the Board on 1 March 2021.

N Sanders – remuneration details

N Sanders was appointed as Executive Chairman on 5 October 2020.

The terms of his appointment can be summarised as follows:

- annual salary of £150,000; and
- no entitlement to bonus, LTIP awards, pension contributions or other benefits.

DIRECTORS' REMUNERATION REPORT continued

Annual Report on Remuneration continued

Executive Director changes continued

P White – remuneration details

P White was appointed as Chief Financial Officer on 1 March 2021.

The terms of his appointment can be summarised as follows:

- annual salary of £215,000;
- annual car allowance and private medical insurance;
- no entitlement to pension contributions;
- 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.

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 2021 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 |
|--------------------------------|-------------|----------------|--|-------------------------------|-------------------------|--|------------------------------|------------------------|---------------------------|---------------|
| N Sanders ³ | 2021 | 74 | N/A | N/A | N/A | N/A | N/A | 74 | N/A | 74 |
| | 2020 | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| P White ⁴ | 2021 | 18 | N/A | 1 | 13 | N/A | N/A | 18 | 14 | 32 |
| | 2020 | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| A Collins ⁵ | 2021 | 247 | N/A | N/A | N/A | N/A | N/A | 247 | N/A | 247 |
| | 2020 | 225 | N/A | N/A | N/A | N/A | N/A | 225 | N/A | 225 |
| M Durkin-Jones ⁷ | 2021 | 167 | N/A | N/A | N/A | N/A | N/A | 167 | N/A | 167 |
| | 2020 | 50 | N/A | N/A | N/A | N/A | N/A | 50 | N/A | 50 |
| M Rollins ⁶ | 2021 | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| | 2020 | 45 | N/A | N/A | N/A | N/A | N/A | 45 | N/A | 45 |
| S Matthews DeMers ⁸ | 2021 | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| | 2020 | 131 | N/A | 8 | N/A | N/A | 20 | 131 | 28 | 159 |

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. N Sanders' salary relates to the period from 5 October 2020 when appointed as Executive Chairman.

4. P White's salary, benefits and annual bonus relate to the period from 1 March 2021 to 31 March 2021. The salary payment of the interim Chief Financial Officer for P White from 16 December 2020 to 28 February 2021 is not included as this appointment was not a Board appointment.

5. A Collins' salary relates to the period to 5 November 2020 when he left the Group.

6. M Rollins' salary relates to the period to 31 October 2019 whilst acting as an Executive Director. The amount shown represents his Chairman fee only for the period as he elected not to receive any additional remuneration for assuming executive responsibilities.

7. M Durkin-Jones' salary relates to the period to 17 December 2020 when he left the Group.

8. S Matthews-DeMers' salary relates to the period to 31 October 2019 when she left the Group.

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 2021 and the prior year:

| Non-Executive Director | Base fee £ | | Committee fees £ | | Total £ | |
|----------------------------|------------|--------|------------------|-------|---------|--------|
| | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 |
| M Rollins ¹ | N/A | 43,168 | N/A | N/A | N/A | 44,775 |
| P Slabbert ² | 34,930 | 36,769 | 6,477 | 8,675 | 41,407 | 45,444 |
| J Oatley ³ | 55,164 | 36,769 | 1,662 | 6,175 | 56,826 | 42,944 |
| D Toohey ⁴ | 34,930 | 36,769 | 5,454 | N/A | 40,384 | 36,769 |
| N Sanders ⁵ | 5,370 | N/A | N/A | N/A | 5,370 | N/A |
| E Hutchinson ⁶ | 8,819 | N/A | 583 | N/A | 9,402 | N/A |
| F Doorenbosch ⁷ | 6,333 | N/A | N/A | N/A | 6,333 | N/A |

1. M Rollins' fee relates to the period 1 November 2019 to 24 March 2020, when he left the Group.

2. P Slabbert acted as Senior Independent Director until 30 September 2020 and Audit Committee Chairman until 1 March 2021. P Slabbert stood down from the Board on 31 March 2021.

3. J Oatley acted as Remuneration Committee Chairman until 27 April 2020. J Oatley acted as Non-Executive Chairman for the period 27 April 2020 to 30 September 2020 and as Senior Independent Director from 30 September 2020.

4. D Toohey acted as Remuneration Committee Chairman from 27 April 2020. D Toohey stood down from the Board and as Remuneration Committee Chair on 30 April 2021.

5. N Sanders acted as Non-Executive Director and Chairman-elect from 18 August 2020 to 30 September 2020 and acted as Non-Executive Chairman from 30 September 2020 to 5 October 2020, when he was elected as Executive Chairman.

6. E Hutchinson was appointed as a Non-Executive Director on 7 January 2021 and assumed the role of Audit Committee Chairman from 1 March 2021.

7. F Doorenbosch was appointed as a Non-Executive Director on 1 February 2021 and assumed the role of Remuneration Committee Chairman from 30 April 2021.

Incentive outcomes for the year ended 31 March 2021 (audited)

Annual performance bonus outcome 2020/21

| Name | Outcome % salary | | Maximum potential % salary | |
|---------|------------------|---------|----------------------------|---------|
| | Financial | Payable | Financial | Payable |
| P White | 75.00 | 75.00 | 75.00 | 75.00 |

The detailed financial performance targets applicable to the 2020/21 annual bonus arrangements were as follows:

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

In respect of EBIT, to achieve the minimum threshold under this financial performance target the Group was required to achieve £3,825,000. To achieve the maximum threshold the Group was required to achieve £4,429,000. The actual performance achieved against this target was £4,840,000.

Turning to operating cash flow, to achieve the minimum threshold under this financial performance target the Group was required to achieve £1,483,000. To achieve the maximum threshold the Group was required to achieve £1,853,000. The actual performance achieved against this target was £5,592,000.

Consequently 100% payment will be made in respect of both financial performance targets.

P White, who joined the Board on 1 March 2021, participated in the 2020/21 annual bonus scheme and will receive a pro-rata bonus of £13,438, 33% payment of which will be deferred for 2 years in accordance with the Directors' Remuneration Policy.

None of A Collins, M Durkin-Jones or N Sanders participated in the 2020/21 annual bonus scheme.

2018 LTIP vesting

The LTIP award granted on 31 July 2018 was based on the performance over the three years ended 31 March 2021 and metrics were 50% earnings per share and 50% total shareholder return. Due to the underperformance of both metrics over the three-year period, the Committee confirmed this resulted in 0.0% vesting for the 2018 award.

None of the current Executive Directors have outstanding options from the 2018 LTIP award.

DIRECTORS' REMUNERATION REPORT continued

Annual Report on Remuneration continued

Scheme interests awarded in the year ended 31 March 2021 (audited)

2020/21 LTIP

No grant of conditional share awards was made in 2020/21.

Implementation of Remuneration Policy for the year ending 31 March 2022

A summary of how the Directors' Remuneration Policy will be applied during the year ending 31 March 2022 is set out below:

Basic salary

Executive Directors' base salaries.

| | 2021/22 | 2020/21 | % increase |
|-----------|----------|----------|------------|
| N Sanders | £150,000 | £150,000 | 0 |
| P White | £215,000 | £215,000 | 0 |

N Sanders was appointed as Executive Chairman on 30 September 2020. He was paid an annual salary of £150,000, meaning that he earned £74,038 as Executive Chairman pro-rated for the financial year in question.

P White joined the Board on 1 March 2021. He was paid an annual salary of £215,000, meaning that he earned £17,917 pro-rated for the financial year in question.

Below Executive Director level, basic pay increases are limited to minimal cost of living adjustments, typically in the range 0% to 7.0%, apart from cases of local statutory requirements, promotions, increases in scope or other exceptional reasons.

Pension arrangements

N Sanders and P White do not receive employer pension contributions.

Annual bonus

Currently, the Executive Chairman has no annual bonus entitlement.

In line with the Directors' Remuneration Policy it is anticipated that the maximum bonus potential for the year ending 31 March 2022 will be 75% of salary for the CFO. It is likely that all of the bonus will be based on financial measures, which will include underlying EBITDA and Working Capital Cash Flow measures, equally weighted. 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 2022. 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 2021/22 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

N Sanders, in line with his service agreement, will not receive a grant of awards under the PSP.

In line with the Directors' Remuneration Policy it is anticipated that the maximum PSP grant to be made to the CFO for the year ending 31 March 2022 will be 100% of salary. It is expected that the PSP vesting criteria will be based on the performance over the three years ended 31 March 2024 and metrics of 50% earnings per share and 50% absolute TSR.

As noted previously, following the work carried out by the Remuneration Committee, the Remuneration Committee has determined that the LTIP is fit for purpose.

The Committee believes the scheme works closely in 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.

Non-Executive Chairman and 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 chairmanship of Board Committees. A summary of current fees is shown in the table below.

Fee levels for the 2021/22 financial year can be summarised as follows:

| Provision | 2021/22 | 2020/21 | % increase |
|--|---------|---------|------------|
| Chairman ¹ | N/A | £89,551 | N/A |
| Base fee | £38,000 | £36,769 | 3.35 |
| Senior Independent Director fee ¹ | £10,000 | £2,500 | 300 |
| Committee Chair fees | £7,000 | £6,175 | 13.4 |

1. Following the restructuring of the Board in October 2020, the role of Chairman is now an Executive position. In light of this, the Board carried out a detailed review of the roles and responsibilities of the Executive Chairman and the Senior Independent Director ("SID") and agreed a number of additional responsibilities for the SID in order to maintain good corporate governance. The larger increase in fee for the SID is to take account of these increased responsibilities.

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 2020 and 31 March 2021 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 this 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 2019/20 to 2020/21:

| | Salary/fee | Benefits | Bonus |
|---|------------|----------|-------|
| Executive Chairman | | | |
| 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 2019/20 comparative information included employees from the LED Technologies segment comprising two Wipac businesses which were exited during the period).

The bonus figures are for UK-based employees who participate in a bonus arrangement.

N Sanders, P White, E Hutchinson and F Doorenbosch were appointed on 18 August 2020, 1 March 2021, 7 January 2021 and 1 February 2021 respectively, so no changes are available for this year.

A Collins and M Durkin-Jones left the Group on 5 October 2020 and 17 December 2020 respectively.

P Slabbert and D Toohey stood down from the Board on 31 March 2021 and 30 April 2021 respectively.

In support of the COVID-19 situation and support of other actions taken to mitigate these challenges, both the Executive and Non-Executive Directors who served in office at the time, took a voluntary 20% reduction in salaries/fees for the first quarter of the 2020/21 financial year.

DIRECTORS' REMUNERATION REPORT continued

Annual Report on Remuneration continued

Relative importance of spend on pay

The table below shows the Group's actual expenditure on pay (for all employees) relative to retained (losses)/profits for the financial years ending 31 March 2020 and 31 March 2021.

| | 2021 £000 | 2020 £000 | % change |
|------------------------|--------------|--------------|----------|
| Staff costs | 31,554 | 45,026 | (29.9)% |
| Retained profit/(loss) | 7,412 | (11,409) | 165.0% |
| | Number | Number | % change |
| Number of employees | 1,048 | 1,475 | (28.9)% |

Relative performance

The graph below compares the value of £100 invested in Carclo shares, including re-invested 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 Chairman)

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|--|------|------|-------|------|------|------|------|------|------|------|------|
| Chief Executive single figure of remuneration (£000) | 491 | 249 | 2,764 | 328 | 538 | 462 | 836 | 449 | 325 | 270 | 321 |
| Annual bonus payout (as % of maximum) | — | — | — | — | 71 | 21 | 96 | — | — | — | — |
| PSP vesting (as % of maximum) | 50 | 50 | 100 | — | — | 50 | 50 | 32.5 | — | — | — |

Figures for 2011 to 2013 relate to I Williamson who was succeeded as Chief Executive by C Malley on 27 March 2013. C Malley resigned as Chief Executive and stood down from the Board on 11 January 2019. M Rollins assumed the role of Executive Chairman 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 Chairman on 5 October 2020. Consequently, the full-year data is a combination of both, reflecting the period in which N Sanders acted in the position of Executive Chairman and up to and including the leaving date for A Collins.

Chief Executive/Executive Chairman pay ratio reporting

Outlined below is the ratio of the Chief Executive/Executive Chairman's single figure of total remuneration for 2020/21 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 |
|----------------|-----------------|---------------------------|------------------|---------------------------|
| 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 2020/21 financial year has been used to calculate the ratios.

Using pay data from the date of the appointment of N. Sanders as Executive Chairman on 5 October 2020, the pay ratios are as follows:

| Financial year | Method | 25th percentile pay ratio | Median pay ratio | 75th percentile pay ratio |
|----------------|-----------------|---------------------------|------------------|---------------------------|
| 2020/21 | Option A | 7 : 1 | 6 : 1 | 4 : 1 |

The employee data used to calculate the ratios is as follows:

| | 25th percentile | Median | 75th percentile |
|------------------------|-----------------|---------|-----------------|
| Total pay and benefits | £21,358 | £25,676 | £38,608 |
| Base salary | £20,430 | £24,635 | £36,357 |

Of the three options set out in the new legislation for calculating the Chief Executive/Executive Chairman pay ratio, we have opted to use Option A to calculate the pay ratio.

The individuals represented at the 25th percentile and median are colleagues within our CTP Mitcham facility; the individual represented at the 75th percentile is a colleague within our Aylesbury facility. The nature of our workforce and demographics are such that we have over 75% of our UK employees working in our CTP Mitcham facility.

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.

Changes to the basic salary of our Chief Executive/Executive Chairman have consistently been in line with the base pay award given to our employees over the last five years.

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 2021 were as follows:

| | 31 March 2021 | | 31 March 2020 | |
|-----------------------------|-----------------|---------|-----------------|---------|
| | Ordinary shares | Options | Ordinary shares | Options |
| P Slabbert | 30,000 | — | 30,000 | — |
| D Toohey | — | — | — | — |
| J Oatley | — | — | — | — |
| N Sanders ¹ | 369,356 | — | N/A | N/A |
| E Hutchinson ² | 192,118 | — | N/A | N/A |
| F Doorenbosch ³ | 203,958 | — | N/A | N/A |
| P White ⁴ | — | — | N/A | N/A |
| A Collins ⁵ | N/A | N/A | — | — |
| M Durkin-Jones ⁶ | N/A | N/A | — | — |

1. N Sanders was appointed to the Board on 18 August 2020.

2. E Hutchinson was appointed to the Board on 7 January 2021.

3. F Doorenbosch was appointed to the Board on 1 February 2021.

4. P White was appointed to the Board on 1 March 2021.

5. A Collins left the Board on 5 October 2020.

6. M Durkin-Jones left the Board on 17 December 2020.

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 2021:

| Director | Shares held | | | Shareholding requirement (% salary) | Current shareholding (% salary) | Prior year shareholding (% salary) |
|------------------------|--------------------------|--------------------------------------|--|-------------------------------------|---------------------------------|------------------------------------|
| | Owned outright or vested | Vested but subject to holding period | Unvested and subject to vesting conditions | | | |
| N Sanders ¹ | 369,356 | — | — | 100 | 40.0 | N/A |
| P White | — | — | — | 100 | 0.0 | N/A |

1. All of N Sanders' shares are as a result of market purchases made since appointment to the Board.

Directors' interests in shares in Carclo long-term incentive plans (audited)

No share awards under the Carclo PSP have been made to the current Executive Directors.

Approval of the Directors' remuneration report

The Directors' remuneration report set out on pages 50 to 68 was approved by the Board of Directors on 29 June 2021 and signed on its behalf by Frank Doorenbosch, Chair of the Remuneration Committee.



Frank Doorenbosch

Chair of Remuneration Committee

29 June 2021

DIRECTORS' REPORT

The Directors' report is required to be produced by law. Pages 69 to 72 inclusive (together with the sections of the annual report incorporated into these pages by reference) constitute a 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 34. This report, together with the Chairman's statement on pages 04 to 08, 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 28 to 32 a description of the principal risks and uncertainties facing the Group.

The Directors who served throughout the year can be found in the Chairman's Statement on pages 06 and 07.

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 34 and the Chairman's statement on pages 04 to 08 together comprise the "management report".

Statement of corporate governance

The statement of corporate governance on pages 40 to 43 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

Despite the challenges presented by the COVID-19 pandemic, Group performance has enabled significant capital investment to be made whilst retaining a strong financial position with net debt (excluding lease liabilities) as of 31 March 2021 falling to £20.5 million (2020: £22.1 million).

On 14 August 2020 Carclo plc concluded a restructuring with the Company's main creditors, being its bank, HSBC, and the pension scheme, to secure the continued support of those parties through to July 2023.

The debt facilities made available to the Group comprised a term loan of £34.5 million, of which £3.0 million will be amortised by 30 September 2022, and a £3.5 million revolving credit facility maturing on 31 July 2023. Repayments amounting to £1.6 million have been made in the period to 31 March 2021 (these are not part of the £3 million due to be amortised by 30 September 2022). In accordance with the agreement, as repayments are made, the term loan facility reduces first, meaning that, at 31 March 2021, the term loan facility available is £32.1 million (after exchange variances). £3.5 million remains available on the revolving credit facility.

A schedule of contributions has been agreed with the pension trustees through to July 2023. Beyond 2023 a schedule of contributions for £3.5 million annually is in place until 31 October 2040, but is reviewed and reconsidered between the Employer and the trustees at each triennial actuarial valuation, the next being after the results of the 31 March 2021 triennial valuation are known.

The bank facilities are subject to four covenants to be tested on a quarterly basis:

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. 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 on 1 May each year up to and including 2023. In the year to 31 March 2021 the test was met by the payment of the agreed schedule of contributions. In subsequent years, the test requires any shortfall of pension deficit recovery contributions when measured against PPF 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 Aero businesses based on an EBITDA multiple for those businesses which is to be determined annually.

The Directors have reviewed cash flow and covenant forecasts to cover the twelve-month period from the date of signing these financial statements taking into account the Group's available debt facilities and the terms of the arrangements with the bank and the pension scheme. These demonstrate that the Group has sufficient headroom in terms of liquidity and covenant testing through the forecast period.

The Directors have reviewed sensitivity testing based on a number of reasonably possible scenarios, taking into account the current view of impacts of the continuing COVID-19 pandemic on the Group and possible political uncertainty, including the impact of change in the US administration, Brexit and other possible overseas trading issues.

DIRECTORS' REPORT continued

Going concern continued

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 5% matched by a corresponding fall in cost of sales of the same amount, the loss of COVID-related sales from large customers, delays in the timing of commencement of significant new medical projects, reduction in revenue from specific customers, minimum wage increases and exchange risk. These sensitivities attempt to incorporate the risks arising from national and regional impacts of the global pandemic from local lockdowns, impacts on manufacturing and supply chain and other potential increases to direct and indirect costs. The Group has the capacity to take mitigating actions to ensure that the Group remains financially viable, including further reducing operating expenditures as necessary.

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 to it and to adhere to the covenant tests to which it is subject throughout the twelve-month period from the date of signing the financial statements and as such it has adopted the going concern assumption in preparing the financial statements.

Profits and earnings

The profit from continuing operations of the Group before taxation, after charging net interest of £2.7 million (2020: £2.4 million), amounted to £6.7 million compared with a loss of £0.5 million for the previous year. After taxation the earnings from continuing operations per ordinary 5 pence share was a profit of 8.5 pence compared with a loss of 2.6 pence for the previous year.

Statutory profits of the Group amounted to £7.4 million compared with a loss of £11.4 million for the previous year. After taxation the earnings from all operations per ordinary 5 pence share was a profit of 10.1 pence compared with a loss of 15.5 pence for the previous year.

Post balance sheet events

On 4 May 2021, a further £0.2 million was received by HSBC from the Administrators of Wipac Ltd and has been applied as a repayment against the Group's term loan. At 31 March 2021 no asset has been recognised for this nor for further potential post balance sheet proceeds which would also be used to repay the Group's term loan.

Management's best estimate of the contingent asset at 31 March 2021 in respect of these remaining potential proceeds is £0.35 million; the receipt of the £0.2 million does not change this.

At 31 March 2021, the Group has recognised £2.1 million (\$2.9 million) in loans and borrowings in respect to a Paycheck Protection Program loan (see note 11). The loan was received from Commercial Bank and Trust of Pennsylvania as a promissory note, underwritten by the US Government Small Business Administration ("SBA"). On 5 May 2021, CTP USA received confirmation of forgiveness of the loan by the SBA, resulting in its conversion from a loan to a grant. The full amount will be recognised in the income statement in the year ending 31 March 2022.

Share capital

At 31 March 2021, 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 2020 Annual General Meeting (the "2020 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 2020 AGM). This authority is due to lapse at the Annual General Meeting in 2021 (the "2021 AGM").

At the 2020 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 2020 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 2021 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 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 one-third of the Directors who are subject to retirement by rotation shall retire from office at each Annual General Meeting. A Director who retires at an Annual General Meeting may be re-elected by the shareholders.

Notwithstanding these retirement provisions, in line with the UK Corporate Governance Code and as permitted by the articles of association, all Directors retired and presented themselves for re-election at the 2020 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.

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 21. 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 22 and 23. 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 are required to be disclosed in this Directors' report and are set out under the s.172 statement on pages 16 and 17. 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 08. 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 2020/21 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 2021 and 29 June 2021:

| | As at 29 June 2021 | As at 31 March 2021 |
|---|--------------------------|---------------------------|
| Schroder Investment Management Limited | 11.0% | 10.9% |
| Janus Henderson Investors | 9.8% | 9.8% |
| Lakestreet Capital Partners AG | Below 3% | 6.7% |
| Hargreaves Hale Limited (Canaccord Genuity Wealth Management) | Below 3% | Below 3% |

DIRECTORS' REPORT continued

Directors and Directors' interests

The Directors at the date of this Directors' report are listed on pages 38 and 39. Antony Collins stepped down as a Director and interim Chief Executive Officer on 5 October 2020. Matt Durkin-Jones stepped down as a Director and interim Chief Financial Officer on 17 December 2020. Peter Slabbert stepped down as a Non-Executive Director on 31 March 2021. David Toohey stepped down as a Non-Executive Director on 30 April 2021.

Nick Sanders was appointed to the Board on 18 August 2020 and became Executive Chairman on 5 October 2020.

Eric Hutchinson was appointed a Non-Executive Director on 7 January 2021. Frank Doorenbosch was appointed a Non-Executive Director on 1 February 2021. Phil White was appointed a Director and Chief Financial Officer on 1 March 2021.

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 50 to 68.

Biographies of Directors

The biographies of Directors required to be disclosed in this Directors' report are set out on pages 38 and 39. 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 he ought to have taken as a Director to make himself 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



Angie Wakes
Secretary

29 June 2021

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 they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union ("Adopted IFRSs") 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 EU;
- 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 38 and 39, 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



Nick Sanders
Executive Chairman
29 June 2021

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 2021 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 international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. 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 have been prepared in accordance with the requirements of the Companies Act 2006 and:

- give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2021 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union; and
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and as applied in accordance with the provisions of the Companies Act 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 and the Parent Company have previously been loss making and are dependent on debt facilities from its bank, with new facilities being agreed and entered into in August 2020 which run through to July 2023. The new debt facilities have a number of financial covenants. The current global COVID-19 pandemic also continues to have an impact on the Group's operations and results. 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 86. Going concern has also been identified as a key judgement in note 2 on page 94.

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 and challenging key assumptions and mitigating actions put in place in response to COVID-19;
- 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;
- reviewing the financial covenants 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.

In relation to the Group's and the Parent Company'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.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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 audit opinion above, together with an overview of the principal audit procedures performed to address each matter and key observations arising from those procedures. The matters set out below are in addition to going concern which, as 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.

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 90. Revenue recognition on tooling contracts has also been identified as a key judgement in note 2 on page 95. Revenue recognised on tooling contracts in the year is £14.3m as set out in note 7 on page 102.

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 principal audit procedures were:

- 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.

Key observations

Based on the audit procedures outlined above, we consider that the Group's revenue recognition policy is appropriate, and we are satisfied that revenue has been recognised in line with the stated accounting policy.

INDEPENDENT AUDITOR'S REPORT continued

to the members of Carclo plc

Key audit matters continued

| Key audit matter | How our scope addressed this matter |
|--|--|
| <p>Valuation and impairment of intangible assets (Group)</p> <p>Included on the Consolidated Statement of Financial Position is £21.8 million of intangible assets, of which £21.1 million relates to goodwill allocated to the Technical Plastics cash generating unit ("CGU").</p> <p>The Group's accounting policies in respect of goodwill are set out in note 1(c) "Goodwill" on page 88 and note 1(v) "Impairment" on page 92. Impairment of goodwill has also been identified as a key judgement in note 2 on page 94.</p> <p>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.</p> <p>As disclosed in note 16 on page 109, the recoverable amount is based on a calculation of value in use.</p> <p>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.</p> <p>Accordingly, we identified the valuation and impairment of intangible assets as a key audit matter.</p> | <p>Our response</p> <p>Our principal audit procedures were:</p> <ul style="list-style-type: none"> • 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. <p>Key observations</p> <p>Based on the audit procedures outlined above, we consider that the valuation of intangible assets, including goodwill allocated to the Technical Plastics CGU, is reasonable and that management's conclusion that there is no impairment of the intangible assets is reasonable.</p> |
| <p>Valuation and impairment of investment in subsidiaries (Parent Company)</p> <p>The carrying value of investments in subsidiary undertakings on the Company Balance Sheet is £93.8 million.</p> <p>As set out in the accounting policy in note 35(d) on page 140, investments are held at cost less provisions for impairment where appropriate.</p> <p>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.</p> <p>As set out in note 39 on page 143, 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.</p> <p>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.</p> | <p>Our response</p> <p>Our principal audit procedures were:</p> <ul style="list-style-type: none"> • obtaining and reviewing management's impairment reviews; • reviewing the underlying assumptions used in the impairment reviews and assessing that these are reasonable; • 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); • reviewing the Parent Company valuation of investments with reference to the market capitalisation of the Group; and • assessing whether the relevant disclosures in the financial statements are reasonable. <p>Key observations</p> <p>Based on the audit procedures outlined above, we consider that the valuation of investments in subsidiaries is reasonable, and that management's conclusion that there is no impairment of the investment in subsidiaries balance is reasonable.</p> |

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:

Group materiality

| | |
|--|---|
| Overall materiality | £1,075k |
| 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 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 second year of our audit engagement, we set performance materiality at 60% of overall materiality. |
| Reporting threshold | We agreed with the directors that we would report to them misstatements identified during our audit above £32k 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 £150k and £875k, being all below Group overall materiality.

Parent Company materiality

| | |
|--|---|
| Overall materiality | £127k |
| How we determined it | We determined overall materiality to be 1% of net liabilities. |
| Rationale for benchmark applied | Net liabilities is considered the most appropriate benchmark as the Parent Company is not trading and mainly holds investments in subsidiaries as well as intercompany balances, banking facilities and a defined benefit pension scheme liability. |
| 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 second year of our audit engagement, we set performance materiality at 60% of overall materiality. |
| Reporting threshold | We agreed with the directors that we would report to them misstatements identified during our audit above £4k as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons. |

INDEPENDENT AUDITOR'S REPORT continued

to the members of Carclo plc

Our application of materiality and an overview of the scope of our audit continued

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 making 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 a risk assessment, our understanding of the Group and the Parent Company, their environment, controls and critical business processes, to consider qualitative factors in order to ensure that we obtained sufficient coverage across all financial statement line items.

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 eight reporting components, six 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 profit before tax | Total Group assets |
|-----------------------------|----------------------|---------------------|-------------------------|--------------------|
| Full scope | 7 | 92% | 86% | 92% |
| Risk-based audit procedures | 2 | 8% | 14% | 7% |
| Total | 9 | 100% | 100% | 99% |

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. The Group audit team approved all of the significant component materiality levels.

As part of the process, the Group audit team held telephone conference 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.

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

We have nothing to report in this regard.

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 its environment obtained in the course of the audit, we have not identified material misstatements in:

- the Strategic Report or the Directors' Report; or
- 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 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 regard to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified, set out on page 73;
- directors' explanation as to their assessment of the entity's prospects, the period this assessment covers and why the period is appropriate, set out on pages 33 and 34;
- directors' statement on fair, balanced and understandable, set out on page 73;
- the Board's confirmation that it has carried out a robust assessment of the emerging and principal risks, set out on pages 28 to 32;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems, set out on pages 42 and 43; and
- the section describing the work of the Audit Committee, set out on pages 44 to 46.

Responsibilities of Directors

As explained more fully in the directors' responsibilities statement set out on page 73, 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.

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. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Based on our understanding of the Group and the Parent Company and their industry, we identified that the principal risks of non-compliance with laws and regulations related to employment regulation, health and safety regulation, anti-bribery, corruption and fraud, money laundering, modern slavery, GDPR, and non-compliance with implementation of government support schemes relating to COVID-19, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those other laws and regulations that have a direct impact on the preparation of financial statements, such as the Companies Act 2006, UK tax legislation, pensions legislation and breaches of regulatory requirements of the FCA.

INDEPENDENT AUDITOR'S REPORT continued

to the members of Carclo plc

Auditor's responsibilities for the audit of the financial statements continued

In identifying and assessing risks of material misstatement in respect to irregularities including non-compliance with laws and regulations, our procedures included, but were not limited to:

- at the planning stage of our audit, 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;
- discussing with the directors and management the policies and procedures in place regarding compliance with laws and regulations;
- discussing amongst the engagement team the identified laws and regulations, and remaining alert to any indications of non-compliance; and
- during the audit, focusing on areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussions with the directors (as required by auditing standards), from inspection of the Parent Company's and Group's regulatory and legal correspondence and review of minutes of directors' meetings in the year.

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 such as opportunities for fraudulent manipulation of financial statements, and determined that the principal risks were 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 impairment reviews, revenue recognition (which we pinpointed to the areas set out in the key audit matter on revenue recognition in the "key audit matters" section of our report above) and significant one-off or unusual transactions; 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, including fraud, are discussed under "Key audit matters" within this report.

A further description of our responsibilities is available on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities.

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 ending 31 March 2020 and subsequent financial periods. The period of total uninterrupted engagement is two years, covering the years ending 31 March 2020 to 31 March 2021.

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 Parent 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 Parent 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 Parent Company and the Parent Company's members as a body for our audit work, for this report, or for the opinions we have formed.



Tim Hudson (Senior Statutory Auditor)

for and on behalf of Mazars LLP

Chartered Accountants and Statutory Auditor

One St Peter's Square

Manchester

M2 3DE

29 June 2021

CONSOLIDATED INCOME STATEMENT

for the year ended 31 March 2021

| | Notes | 2021 £000 | 2020 £000 |
|--|-------|----------------|--------------|
| Continuing operations: | | | |
| Revenue | 7 | 107,564 | 110,506 |
| Underlying operating profit | | 4,840 | 7,313 |
| Exceptional items | 10 | 4,490 | (5,470) |
| Operating profit | 3, 8 | 9,330 | 1,843 |
| Finance revenue | 12 | 42 | 97 |
| Finance expense | 12 | (2,701) | (2,485) |
| Profit/(loss) before tax | | 6,671 | (545) |
| Income tax expense | 13 | (457) | (1,355) |
| Profit/(loss) after tax but before profit/(loss) on discontinued operations | | 6,214 | (1,900) |
| Discontinued operations: | | | |
| Profit/(loss) on discontinued operations, net of tax | 4 | 1,198 | (9,509) |
| Profit/(loss) for the period | | 7,412 | (11,409) |
| Attributable to: | | | |
| Equity holders of the Company | | 7,412 | (11,409) |
| Non-controlling interests | | — | — |
| | | 7,412 | (11,409) |
| Earnings/(loss) per ordinary share | 14 | | |
| Basic – continuing operations | | 8.5p | (2.6)p |
| Basic – discontinued operations | | 1.6p | (13.0)p |
| Basic | | 10.1p | (15.5)p |
| Diluted – continuing operations | | 8.5p | (2.6)p |
| Diluted – discontinued operations | | 1.6p | (13.0)p |
| Diluted | | 10.1p | (15.5)p |

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March 2021

| | 2021 £000 | 2020 £000 |
|--|----------------|--------------|
| Profit/(loss) for the period | 7,412 | (11,409) |
| Other comprehensive (expense)/income: | | |
| Items that will not be reclassified to the income statement | | |
| Remeasurement (losses)/gains on defined benefit scheme | (6,540) | 7,805 |
| Deferred tax arising | — | — |
| Total items that will not be reclassified to the income statement | (6,540) | 7,805 |
| Items that are or may in future be classified to the income statement | | |
| Foreign exchange translation differences | (2,939) | 716 |
| Net investment hedge | 1,084 | (549) |
| Deferred tax arising | 137 | (124) |
| Total items that are or may in future be classified to the income statement | (1,718) | 43 |
| Other comprehensive (expense)/income, net of tax | (8,258) | 7,848 |
| Total comprehensive expense for the year | (846) | (3,561) |
| Attributable to: | | |
| Equity holders of the Company | (846) | (3,561) |
| Non-controlling interests | — | — |
| Total comprehensive expense for the period | (846) | (3,561) |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 March 2021

| | Notes | 2021 £000 | 2020 £000 |
|---|-------|----------------|--------------|
| Non-current assets | | | |
| Intangible assets | 16 | 21,848 | 22,880 |
| Property, plant and equipment | 17 | 43,218 | 40,395 |
| Deferred tax assets | 23 | 384 | 407 |
| Trade and other receivables | 20 | 112 | 114 |
| Total non-current assets | | 65,562 | 63,796 |
| Current assets | | | |
| Inventories | 18 | 12,821 | 14,201 |
| Contract assets | 19 | 2,898 | 1,424 |
| Trade and other receivables | 20 | 19,254 | 19,775 |
| Cash and cash deposits | 21 | 15,485 | 19,309 |
| Total current assets | | 50,458 | 54,709 |
| Total assets | | 116,020 | 118,505 |
| Non-current liabilities | | | |
| Loans and borrowings | 22 | 37,997 | 3,862 |
| Deferred tax liabilities | 23 | 4,393 | 4,559 |
| Contract liabilities | 7 | 866 | — |
| Retirement benefit obligations | 24 | 37,275 | 37,620 |
| Total non-current liabilities | | 80,531 | 46,041 |
| Current liabilities | | | |
| Loans and borrowings | 22 | 5,084 | 42,804 |
| Trade and other payables | 26 | 17,016 | 18,420 |
| Current tax liabilities | | 17 | 879 |
| Contract liabilities | 7 | 5,461 | 1,607 |
| Provisions | 25 | — | 23 |
| Total current liabilities | | 27,578 | 63,733 |
| Total liabilities | | 108,109 | 109,774 |
| Net assets | | 7,911 | 8,731 |
| Equity | | | |
| Ordinary share capital issued | 27 | 3,671 | 3,671 |
| Share premium | | 7,359 | 7,359 |
| Translation reserve | 28 | 5,333 | 7,051 |
| Retained earnings | 28 | (8,426) | (9,324) |
| Total equity attributable to equity holders of the Company | | 7,937 | 8,757 |
| Non-controlling interests | | (26) | (26) |
| Total equity | | 7,911 | 8,731 |

Approved by the Board of Directors on 29 June 2021 and signed on its behalf by:



Nick Sanders

Director

Registered Number 196249



Phil White

Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2021

| | Attributable to equity holders of the Company | | | | | Non-controlling interests £000 | Total equity £000 |
|--|---|-----------------------|-----------------------------|---------------------------|---------------|-----------------------------------|----------------------|
| | Share capital £000 | Share premium £000 | Translation reserve £000 | Retained earnings £000 | Total £000 | | |
| Balance at 1 April 2019 | 3,671 | 7,359 | 7,008 | (5,745) | 12,293 | (26) | 12,267 |
| Loss for the year | — | — | — | (11,409) | (11,409) | — | (11,409) |
| Other comprehensive income/(loss): | | | | | | | |
| Foreign exchange translation differences | — | — | 716 | — | 716 | — | 716 |
| Net investment hedge | — | — | (549) | — | (549) | — | (549) |
| Remeasurement gains on defined benefit scheme | — | — | — | 7,805 | 7,805 | — | 7,805 |
| Taxation on items above | — | — | (124) | — | (124) | — | (124) |
| Total comprehensive income/(loss) for the period | — | — | 43 | (3,604) | (3,561) | — | (3,561) |
| Transactions with owners recorded directly in equity: | | | | | | | |
| Share-based payments | — | — | — | 25 | 25 | — | 25 |
| Taxation on items recorded directly in equity | — | — | — | — | — | — | — |
| Balance at 31 March 2020 | 3,671 | 7,359 | 7,051 | (9,324) | 8,757 | (26) | 8,731 |
| Balance at 1 April 2020 | 3,671 | 7,359 | 7,051 | (9,324) | 8,757 | (26) | 8,731 |
| Profit for the year | — | — | — | 7,412 | 7,412 | — | 7,412 |
| Other comprehensive income/(loss): | | | | | | | |
| Foreign exchange translation differences | — | — | (2,939) | — | (2,939) | — | (2,939) |
| Net investment hedge | — | — | 1,084 | — | 1,084 | — | 1,084 |
| Remeasurement losses on defined benefit scheme | — | — | — | (6,540) | (6,540) | — | (6,540) |
| Taxation on items above | — | — | 137 | — | 137 | — | 137 |
| Total comprehensive income/(loss) for the period | — | — | (1,718) | 872 | (846) | — | (846) |
| Transactions with owners recorded directly in equity: | | | | | | | |
| Share-based payments | — | — | — | 26 | 26 | — | 26 |
| Taxation on items recorded directly in equity | — | — | — | — | — | — | — |
| Balance at 31 March 2021 | 3,671 | 7,359 | 5,333 | (8,426) | 7,937 | (26) | 7,911 |

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 March 2021

| | Notes | 2021 £000 | 2020 £000 |
|--|-------|----------------|--------------|
| Cash generated from operations | 30 | 11,202 | 21,803 |
| Interest paid | | (1,782) | (1,568) |
| Tax paid | | (1,023) | (933) |
| Net cash from operating activities | | 8,397 | 19,302 |
| Cash flows from investing activities | | | |
| Proceeds from sale of business, net of cash disposed | | 1,250 | 5,456 |
| Proceeds from sale of property, plant and equipment | | 21 | 2,500 |
| Interest received | | 42 | 104 |
| Acquisition of business, net of cash acquired | | — | (250) |
| Purchase of property, plant and equipment | | (7,180) | (8,512) |
| Purchase of intangible assets – computer software | | (139) | (19) |
| Net cash used in investing activities | | (6,006) | (721) |
| Cash flows from financing activities | 22 | | |
| Drawings on new facilities | | 38,697 | — |
| Transaction costs associated with the issue of debt | | (380) | — |
| Repayment of borrowings excluding lease liabilities | | (31,666) | (9) |
| Repayment of lease liabilities | | (1,601) | (3,122) |
| Net cash from/(used in) financing activities | | 5,050 | (3,131) |
| Net increase in cash and cash equivalents | | 7,441 | 15,450 |
| Cash and cash equivalents at beginning of period | | 8,352 | (7,038) |
| Effect of exchange rate fluctuations on cash held | | (308) | (60) |
| Cash and cash equivalents at end of period | | 15,485 | 8,352 |
| Cash and cash equivalents comprise: | | | |
| Cash and cash deposits | | 15,485 | 19,309 |
| Bank overdrafts | | — | (10,957) |
| | | 15,485 | 8,352 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March 2021

1 Basis of preparation

The Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union ("Adopted IFRSs"). The Company has elected to prepare its parent company financial statements in accordance with FRS 101; these are presented on pages 136 to 146. 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 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.

Despite the challenges presented by the COVID-19 pandemic, Group performance has enabled significant capital investment to be made whilst retaining a stable financial position, with net debt excluding lease liabilities as of 31 March 2021 falling to £20.5 million (2020: £22.1 million).

On 14 August 2020 Carclo plc concluded a restructuring with the Company's main creditors, being its bank, HSBC, and the pension scheme, to secure the continued support of those parties through to July 2023.

The debt facilities made available to the Group comprised a term loan of £34.5 million, of which £3.0 million will be amortised by 30 September 2022, and a £3.5 million revolving credit facility maturing on 31 July 2023. Repayments amounting to £1.6 million have been made in the period to 31 March 2021 (these are not part of the £3 million due to be amortised by 30 September 2022). In accordance with the agreement, as repayments are made, the term loan facility reduces first, meaning that, at 31 March 2021, the term loan facility available is £32.1 million (after exchange variances). £3.5 million remains available on the revolving credit facility.

A schedule of contributions has been agreed with the pension trustees through to July 2023. Beyond 2023 a schedule of contributions for £3.5 million annually is in place until 31 October 2040, but is reviewed and reconsidered between the Employer and the trustees at each triennial actuarial valuation, the next being after the results of the 31 March 2021 triennial valuation are known.

The bank facilities are subject to four covenants to be tested on a quarterly basis:

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.

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 on 1 May each year up to and including 2023. In the year to 31 March 2021 the test was met by the payment of the agreed schedule of contributions. In subsequent years, the test requires any shortfall of pension deficit recovery contributions when measured against PPF 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 businesses based on an EBITDA multiple for those businesses which is to be determined annually.

The Directors have reviewed cash flow and covenant forecasts to cover the twelve-month period from the date of signing these financial statements taking into account the Group's available debt facilities and the terms of the arrangements with the bank and the pension scheme. These demonstrate that the Group has sufficient headroom in terms of liquidity and covenant testing through the forecast period.

The Directors have reviewed sensitivity testing based on a number of reasonably possible scenarios, taking into account the current view of impacts of the continuing COVID-19 pandemic on the Group and possible political uncertainty, including the impact of change in the US administration, Brexit and other possible overseas trading issues.

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 5% matched by a corresponding fall in cost of sales of the same amount, the loss of COVID-related sales from large customers, delays in the timing of commencement of significant medical projects, reduction in revenue from specific customers, minimum wage increases and exchange risk. These sensitivities attempt to incorporate the risks arising from national and regional impacts of the global pandemic from local lockdowns, impacts on manufacturing and supply chain and other potential increases to direct and indirect costs. The Group has the capacity to take mitigating actions to ensure that the Group remains financially viable, including further reducing operating expenditures as necessary.

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 to it and to adhere to the covenant tests to which it is subject throughout the twelve-month period from the date of signing the financial statements and as such it has adopted the going concern assumption in preparing the financial statements.

New standards, amendments and interpretations

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting period beginning on or after 1 April 2020. 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 2020:

- **Amendments to References to Conceptual Framework in IFRS Standards** (effective date 1 January 2020);
- **Amendments to IFRS 3 Definition of a Business** (effective date 1 January 2020);
- **Amendments to IAS 1 and IAS 8: Definition of Material** (effective date 1 January 2020); and
- **IFRS 9 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures: Amendments arising from the Interest Rate Benchmark Reform – Phase 1** (effective 1 January 2020).

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 Group's accounting period beginning on or after 1 April 2021.

The Group has elected not to early adopt these standards, which are described below.

- **IFRS 16 Leases: Amendments in relation to COVID-19 related rent concessions** (effective date 1 June 2020);
- **IFRS 4 Insurance Contracts: Amendments in relation to the temporary exemption from applying IFRS 9** (effective date 25 June 2020);
- **IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures, IFRS 4 Insurance Contracts and IFRS 16 Leases: Amendments arising from the Interest Rate Benchmark Reform – Phase 2** (effective date 1 January 2021);
- **IAS 16 Property, Plant and Equipment: Amendments in relation to proceeds before intended use** (effective date 1 January 2022);
- **IAS 37 Provisions, Contingent Liabilities and Contingent Assets: Amendments in relation to the cost of fulfilling a contract when assessing onerous contracts** (effective date 1 January 2022);
- **IFRS 3 Business Combinations: Amendments to update references to the Conceptual Framework** (effective date 1 January 2022);
- **Annual Improvements to IFRSs (2018-2020 cycle)** (effective date 1 January 2022);

- **IAS 1 Presentation of Financial Statements: Amendments in relation to the classification of liabilities as current or non-current** (effective date 1 January 2023);
- **IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Material Judgements: Amendments in relation to the disclosure of accounting policies** (effective date 1 January 2023);
- **IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Amendments in relation to the definition of accounting estimates** (effective date 1 January 2023);
- **IFRS 17 Insurance Contracts** (effective date 1 January 2023); and
- **Amendments to IFRS 17 Insurance Contracts** (effective date 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.

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 Group 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 31 March 2021

1 Basis of preparation continued

Accounting policies continued

b) Basis of consolidation continued

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.

Goodwill arising prior to 31 March 1998 and previously written off to reserves has not been reinstated.

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).

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 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 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.

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 such as these. The Group recognises the lease payments associated with these leases 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 using 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) and 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 other inventories 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 31 March 2021

1 Basis of preparation continued

Accounting policies continued

j) Revenue recognition

Revenue arises on the Group's principal activities. Further details are set out in note 7.

To determine whether to recognise revenue, the Group follows a five-step process:

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 Technical Plastics segment would generally be for tooling 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 (see note 7). 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.

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 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, and any adjustment 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.

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.

In the year to 31 March 2021, members of the Carclo Group Pension Scheme were offered the right to take a Bridging Pension Option. It was agreed with the trustees that members retiring prior to their normal retirement age would be able to exchange eligible excess pension for a temporary pension equal in value up to the new basic state pension. Refer to note 24 for more information.

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 25.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 31 March 2021

1 Basis of preparation continued

Accounting policies continued

t) Financial instruments continued

ii) Classification and subsequent measurement continued

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.

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 or 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

Net investment hedges

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 equity-settled share-based payments to certain employees in exchange for services rendered by them. The fair value of the share-based award is calculated at the date of the grant and is expensed on a straight-line basis over the vesting period with a corresponding increase in equity. This is based on the Group's estimate of share options that will eventually vest. This takes 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.

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.

No provisions have been recognised at 31 March 2021, the provision at prior year was in respect to exit costs for a site leased by a legacy Group business.

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

Government grants that are income based 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 from the related expense.

ab) Current versus non-current disclosure

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 31 March 2021

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 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 the twelve months from the date of signing these financial statements. This determines whether the Group should operate the going concern basis of preparation for these financial statements.

Impairment of assets

Notes 16 and 17 contain information about management's estimates of the recoverable amount of cash generating units 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 related goodwill or other assets.

Management has also exercised judgement to determine the Group's cash generating units to which goodwill is allocated and against which impairment testing is performed.

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. Goodwill at 31 March 2021 amounts to £21.1 million (2020: £22.0 million). As set out in more detail in notes 16 and 17, the recoverable amounts may be based on either value-in-use calculations or fair value less costs of disposal calculations. 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 notes 16 and 17.

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 2021 amounts to £37.3 million (2020: £37.6 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.

A Bridging Pension Option ("BPO") was introduced in the year to 31 March 2021 with the rule change and member announcement creating a legal and constructive obligation and thus constituting a plan amendment. Having taken actuarial advice, management has exercised judgement that 40% of members will take the BPO. This estimate impacts on the past service credit recognised as an exceptional item in the income statement.

Lease break options

Note 6 contains information about lease break options.

Key judgement

Management has applied judgement when determining the expected certainty that a break option within a lease will be exercised. Note 6 details the amount by which lease liabilities would decrease if the Group were to exercise break options that at 31 March 2021 management are reasonably certain will not be exercised.

Revenue recognition

As revenue from tooling 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 continuing Technical Plastics segment required management to use judgement to apportion contract revenue to the tooling performance obligations.

As detailed in note 7, the revenue recognised on premium automotive lighting tooling contracts in the prior year discontinued operations required management to use judgement to apportion contract revenue to milestones and in certain cases to estimate when milestones had been achieved.

In the current year, management of the Technical Plastics segment has had to apply judgement in determining to which contract a significant modification relates and therefore against which performance objectives the increase in revenue should be allocated. Management determined that it relates to the tooling contract and as such the additional revenue has been recognised in part this year, with the expectation that the balance will be recognised in the year to 31 March 2022.

Key sources of estimation uncertainty

Revenue recognised on certain contracts in the continuing Technical Plastics segment required management to estimate the remaining costs to complete the tooling performance obligation in order to determine the percentage of completion and revenue to recognise in respect of those performance obligations.

In the current year, management of the Technical Plastics division have been required to estimate the likelihood of a variable consideration component in respect to a large tooling contract becoming payable. Management determined that it was not highly probable that a proportion of the revenue will not reverse and therefore, at 31 March 2021, none of the £0.7 million has been recognised in revenue. If all the required milestones are met, then this revenue will be recognised in the year ended 31 March 2022.

Recognition of deferred tax assets

Note 23 contains information about the deferred tax assets recognised in the consolidated statement of financial position.

Key judgement

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 the basis of this judgement no UK deferred tax assets have been recognised at the period end.

Classification of exceptional items

Note 10 contains information about items classified as exceptional items.

Key judgements

Management has exercised judgement over whether items are exceptional as set out in the Group's accounting policy – see note 1 w).

Government grants

As set out in notes 11, 22 and 34, £2.1 million (\$2.9 million) of government COVID-19 support loans have been classified within loans and borrowings.

Key judgements

Management has made a judgement that there was insufficient certainty as to whether conditions attached to £2.1 million of government loans in support of COVID-19 interruption had been met at 31 March 2021 and therefore the proceeds have been presented as loans and borrowings in the consolidated statement of financial position and no associated government grant income has been recognised during the period. Subsequent to the balance sheet date, the Group received confirmation of loan forgiveness and conversion of the funding from loan to grant was judged to have occurred at that point after the balance sheet date. See note 34 for more information.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 31 March 2021

3 Segment reporting

During the period the Group was organised into two, separately managed, business segments – Technical Plastics 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 Technical Plastics segment supplies fine tolerance, injection moulded plastic components, which are used in medical, diagnostics, optical and electronic products. This business operates internationally in a fast-growing and dynamic market underpinned by rapid technological development. This segment includes the Optics business formerly included within the LED Technologies segment (see note 5).

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

The Central segment relates to central costs, non-trading companies and eliminations of intra-group revenue.

The LED Technologies segment presented as a discontinued operation 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.

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

Analysis by business segment

The segment results for the year ended 31 March 2021 were as follows:

| | Technical Plastics (continuing) £000 | Aerospace (continuing) £000 | Central (continuing) £000 | Total (continuing operations) £000 | LED Technologies (discontinued) £000 | Group total £000 |
|--|--|-----------------------------------|---------------------------------|--|--|---------------------|
| Consolidated income statement | | | | | | |
| Total revenue | 102,473 | 5,091 | — | 107,564 | — | 107,564 |
| Less inter-segment revenue | — | — | — | — | — | — |
| External revenue | 102,473 | 5,091 | — | 107,564 | — | 107,564 |
| Expenses | (93,256) | (4,541) | (4,927) | (102,724) | — | (102,724) |
| Underlying operating profit/(loss) | 9,217 | 550 | (4,927) | 4,840 | — | 4,840 |
| Exceptional operating items | — | — | 4,490 | 4,490 | (52) | 4,438 |
| Operating profit/(loss) | 9,217 | 550 | (437) | 9,330 | (52) | 9,278 |
| Net finance expense | | | | (2,659) | — | (2,659) |
| Income tax expense | | | | (457) | — | (457) |
| Profit from operating activities after tax | | | | 6,214 | (52) | 6,162 |
| Profit on disposal of discontinued operations, net of tax – see note 4 | | | | — | 1,250 | 1,250 |
| Profit for the period | | | | 6,214 | 1,198 | 7,412 |
| Consolidated statement of financial position | | | | | | |
| Segment assets | 109,217 | 6,073 | 730 | 116,020 | — | 116,020 |
| Segment liabilities | (33,951) | (832) | (73,326) | (108,109) | — | (108,109) |
| Net assets | 75,266 | 5,241 | (72,596) | 7,911 | — | 7,911 |
| Other segmental information | | | | | | |
| Capital expenditure on property, plant and equipment | 10,128 | 208 | 38 | 10,374 | — | 10,374 |
| Capital expenditure on computer software | 3 | — | 136 | 139 | — | 139 |
| Depreciation | 5,492 | 250 | 32 | 5,774 | — | 5,774 |
| Impairment of property, plant and equipment | — | (13) | — | (13) | — | (13) |
| Amortisation of computer software | 57 | — | 96 | 153 | — | 153 |
| Amortisation of other intangibles | 53 | — | — | 53 | — | 53 |

The segment results for the year ended 31 March 2020 were as follows:

| | Technical Plastics (continuing) £000 | Aerospace (continuing) £000 | Central (continuing) £000 | Total (continuing operations) £000 | LED Technologies (discontinued) £000 | Group total £000 |
|---|---|-----------------------------------|---------------------------------|---|---|------------------------|
| Consolidated income statement | | | | | | |
| Total revenue | 105,169 | 7,453 | (2,116) | 110,506 | 35,782 | 146,288 |
| Less inter-segment revenue | (2,116) | — | 2,116 | — | — | — |
| Total external revenue | 103,053 | 7,453 | — | 110,506 | 35,782 | 146,288 |
| Expenses | (93,800) | (5,800) | (3,593) | (103,193) | (38,730) | (141,923) |
| Underlying operating profit/(loss) | 9,253 | 1,653 | (3,593) | 7,313 | (2,948) | 4,365 |
| Exceptional items | (10) | (1,440) | (4,020) | (5,470) | (3,309) | (8,779) |
| Operating profit/(loss) | 9,243 | 213 | (7,613) | 1,843 | (6,257) | (4,414) |
| Net finance expense | | | | (2,388) | (197) | (2,585) |
| Income tax expense | | | | (1,355) | (94) | (1,449) |
| Loss from operating activities after tax | | | | (1,900) | (6,548) | (8,448) |
| Loss on disposal of discontinued operations, net of tax | | | | — | (2,962) | (2,962) |
| Loss for the period | | | | (1,900) | (9,510) | (11,410) |
| Consolidated statement of financial position | | | | | | |
| Segment assets | 101,005 | 6,287 | 11,213 | 118,505 | — | 118,505 |
| Segment liabilities | (27,207) | (1,321) | (81,246) | (109,774) | — | (109,774) |
| Net assets | 73,798 | 4,966 | (70,033) | 8,731 | — | 8,731 |
| Other segmental information | | | | | | |
| Capital expenditure on property, plant and equipment | 7,066 | 166 | 66 | 7,298 | 4,791 | 12,089 |
| Capital expenditure on computer software | 19 | — | — | 19 | — | 19 |
| Depreciation | 5,675 | 270 | 6 | 5,951 | 814 | 6,765 |
| Impairment of property, plant and equipment | — | — | — | — | 1,501 | 1,501 |
| Amortisation of computer software | 19 | — | 95 | 114 | — | 114 |
| Amortisation of other intangibles | 58 | — | — | 58 | — | 58 |
| Impairment of goodwill | — | 1,405 | — | 1,405 | — | 1,405 |

The Group's Aylesbury-based Optics business ("Optics") operated historically and until 20 December 2019 within the Wipac Limited legal entity, but with its business closely related to the Group's Technical Plastics segment. Immediately following Administrators being appointed to Wipac Limited (see note 4) the Group acquired the business and assets, other than trade debtors, related to Optics (see note 5). Therefore, the Optics business is shown as part of continuing operations within the Technical Plastics segment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 31 March 2021

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, and the geographical analysis was as follows:

| | External revenue | | Net segment assets | | Expenditure on tangible fixed assets and computer software | |
|----------------|------------------|--------------|--------------------|--------------|--|--------------|
| | 2021 £000 | 2020 £000 | 2021 £000 | 2020 £000 | 2021 £000 | 2020 £000 |
| United Kingdom | 12,413 | 39,555 | (41,577) | (42,180) | 6,006 | 10,353 |
| North America | 50,814 | 47,736 | 25,173 | 26,143 | 3,720 | 1,214 |
| Rest of world | 44,337 | 58,997 | 24,315 | 24,768 | 787 | 541 |
| | 107,564 | 146,288 | 7,911 | 8,731 | 10,513 | 12,108 |

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 £37.275 million (2020: net liabilities of £37.620 million), and net borrowings of £34.017 million (2020: £31.458 million).

One Technical Plastics customer accounted for 24.5% (2020: 23.7%) and another for 10.4% (2020: 7.3%) 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 £nil (2020: £nil), North America £0.277 million (2020: £0.268 million), Rest of world £0.107 million (2020: £0.139 million).

Total non-current assets by geographical location are as follows: United Kingdom £23.096 million (2020: £20.485 million), North America £23.935 million (2020: £23.831 million), Rest of world £18.147 million (2020: £18.959 million).

4 Discontinued operation

The LED Technologies segment, comprised entirely of the two Wipac businesses which operated out of the UK and the Czech Republic, is presented as discontinued in the comparative period. Whilst there were no new discontinued operations in the year ended 31 March 2021, on 18 November 2020 and on 5 February 2021, proceeds of £0.5 million and £0.75 million respectively from the Administrators of Wipac Ltd were received by the Group's lending bank and used to reduce the balance on the Group's debt facility. No asset was recognised in the results for the year to 31 March 2020 for potential post balance sheet proceeds and as such, £1.25 million has been recognised as exceptional profit on disposal of discontinued operations in the current year net of £0.1 million of associated costs.

Since the year end, a further £0.2 million has been received by HSBC from the Administrators of Wipac Ltd and has been used to reduce the balance on the Group's debt facility. No asset has been recognised for this at 31 March 2021, or for further potential post balance sheet proceeds which would also be used to reduce the outstanding balance of the Group's term loan.

Management's best estimate of the contingent asset at 31 March 2021 in respect of these remaining potential proceeds is £0.35 million; the receipt of the £0.2 million does not change this.

| | 2021 £000 | 2020 £000 |
|---|--------------|----------------|
| Results of discontinued operation | | |
| Total revenue | — | 35,782 |
| Less inter-segment revenue | — | — |
| Total external revenue | — | 35,782 |
| Expenses | — | (38,728) |
| Underlying operating loss | — | (2,946) |
| Rationalisation and restructuring costs | (52) | (1,808) |
| Impairment | — | (1,501) |
| Operating loss | (52) | (6,255) |
| Net finance expense | | (198) |
| Loss before tax | (52) | (6,453) |
| Income tax expense | | (94) |
| Loss from operating activities after tax | (52) | (6,547) |
| Profit/(loss) on sale of discontinued operation | 1,250 | (2,962) |
| Tax on profit/(loss) on sale of discontinued operation | — | — |
| Profit/(loss) from discontinued operations, net of tax | 1,198 | (9,509) |
| | 2021 £000 | 2020 £000 |
| Cash flows from/(used in) discontinued operation | | |
| Net cash from/(used in) operating activities | (52) | 12,353 |
| Net cash from/(used in) investing activities | 1,250 | 2,700 |
| Cash flows from/(used in) financing activities | — | (1,721) |
| Net cash flows for the period | 1,198 | 13,332 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 31 March 2021

4 Discontinued operation continued

| | 2021 £000 | 2020 £000 |
|--|--------------|--------------|
| Effect of disposal on the financial position of the Group | | |
| Property, plant and equipment | — | 10,087 |
| Inventories | — | 7,053 |
| Contract assets | — | 1,898 |
| Trade and other receivables | — | 9,807 |
| Cash and cash deposits | — | 183 |
| Interest bearing loans and borrowings | — | (1,481) |
| Deferred tax liabilities | — | 39 |
| Trade and other payables | — | (14,412) |
| Contract liabilities | — | (944) |
| Net assets and liabilities disposed of | — | 12,230 |
| Consideration received, satisfied in cash | 1,250 | 5,639 |
| Cash and cash equivalents disposed of | — | (183) |
| Net cash inflows | 1,250 | 5,456 |
| Deferred consideration received | — | 129 |
| Consideration received by the Group pension scheme | — | 3,500 |
| Non-cash disposal proceeds | — | 3,629 |
| Profit/(loss) on disposal working | | |
| Total disposal proceeds | 1,250 | 9,268 |
| Net assets and liabilities disposed of | — | (12,230) |
| Profit/(loss) on disposal | 1,250 | (2,962) |

5 Acquisitions

There have been no acquisitions in the year ended 31 March 2021.

In respect to the prior year, on 20 December 2019, the Group purchased the business and assets of the Aylesbury-based Optics business from the Administrators of Wipac Limited.

Whilst the Optics business was under control of the Group until 20 December 2019, control was lost at the point at which Administrators were appointed to Wipac Limited. The purchase of the Optics business and assets from the Administrators immediately thereafter was a separate transaction.

Prior to 20 December 2019 Optics was a profitable standalone business operating within the Wipac Limited legal entity but with its business closely related to the Group's Technical Plastics division and with its principal supplier being CTP Czech. Reacquiring Optics secured a major customer for the CTP Czech business.

Consideration for the acquisition was £0.25 million and the fair value of the identifiable net assets acquired was £0.25 million.

The Group incurred acquisition-related costs of £0.050 million on legal fees and professional advisor costs. These costs were included in "exceptional items" in the Group's consolidated statement of comprehensive income during the prior year.

There have been no adjustments to the acquisition accounting in the year ended 31 March 2021.

6 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 are presented as property, plant and equipment (see note 17).

| | Land and buildings £000 | Plant and equipment £000 | Total £000 |
|---|-------------------------------|--------------------------------|----------------|
| Balance at 1 April 2019 | 5,109 | 2,030 | 7,139 |
| Depreciation charge for the year | (1,579) | (773) | (2,352) |
| Additions to right-of-use assets | 2,431 | 229 | 2,660 |
| Derecognition of right-of-use assets | (1,122) | (1,206) | (2,328) |
| Balance at 31 March 2020 | 4,839 | 280 | 5,119 |
| Depreciation charge for the year | (1,322) | (260) | (1,582) |
| Additions to right-of-use assets | 2,950 | 819 | 3,769 |
| Derecognition of right-of-use assets | (148) | — | (148) |
| Effect of movements in foreign exchange | (167) | (3) | (170) |
| Balance at 31 March 2021 | 6,152 | 836 | 6,988 |

ii) Lease liabilities

Lease liabilities have been presented as loans and borrowings (see note 22).

Amounts recognised in the income statement

| | 2021 £000 | 2020 £000 |
|--|--------------|--------------|
| Interest on lease liabilities | 210 | 199 |
| Expenses relating to short-term leases | 42 | 296 |
| Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets | — | 17 |
| Depreciation and impairment expense on leases | 1,582 | 2,352 |

Amounts recognised in consolidated statement of cash flows

| | 2021 £000 | 2020 £000 |
|-------------------------------|----------------|--------------|
| Total cash outflow for leases | (1,853) | (3,634) |

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 £2.8 million (2020: £0.7 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

for the year ended 31 March 2021

7 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) Technical Plastics segment:

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

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

Control of manufactured finished goods transfers to customers on delivery. Therefore revenue is recognised at a point in time, on delivery of individual manufactured products to customers.

Tooling

The Technical Plastics business also designs, builds and validates injection moulding tools for customers. Each of these three elements of the tooling process is typically deemed a distinct performance obligation under IFRS 15, as contracts with customers may include one or more elements of the tooling process.

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 Technical Plastics contracts include both tooling and manufacturing performance obligations.

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.

iii) LED Technologies segment:

The LED Technologies segment (disclosed in the prior year as discontinued operations), designed and supplied specialised injection moulded LED based lighting systems for the premium automotive industry.

Manufacturing

Control of manufactured finished goods transferred to customers on delivery. Therefore revenue was recognised at a point in time, on delivery of individual manufactured products to customers.

Tooling

Premium Automotive Lighting contracts were complex and varied in scope and detail.

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

b) Disaggregation of revenue

| | Continuing operations | | | | Discontinued operation | | Group total 2021 £000 | Group total 2020 £000 |
|---|---------------------------------------|---------------------------------------|---------------------------|---------------------------|-------------------------------------|-------------------------------------|--------------------------------|--------------------------------|
| | Technical Plastics 2021 £000 | Technical Plastics 2020 £000 | Aerospace 2021 £000 | Aerospace 2020 £000 | LED Technologies 2021 £000 | LED Technologies 2020 £000 | | |
| | | | | | | | | |
| Major products/service lines | | | | | | | | |
| Manufacturing | 88,210 | 94,073 | 5,091 | 7,453 | — | 34,492 | 93,301 | 136,018 |
| Tooling | 14,263 | 8,981 | — | — | — | 1,290 | 14,263 | 10,271 |
| | 102,473 | 103,054 | 5,091 | 7,453 | — | 35,782 | 107,564 | 146,289 |
| Timing of revenue recognition | | | | | | | | |
| Products transferred at a point in time | 88,210 | 94,073 | 5,091 | 7,453 | — | 34,492 | 93,301 | 136,018 |
| Products and services transferred over time | 14,263 | 8,981 | — | — | — | 1,290 | 14,263 | 10,271 |
| | 102,473 | 103,054 | 5,091 | 7,453 | — | 35,782 | 107,564 | 146,289 |

c) Contract balances

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

| | 2021 £000 | 2020 £000 |
|---------------------------------|----------------------|--------------|
| Trade receivables (see note 20) | 15,496 | 15,319 |
| Contract assets (see note 19) | 2,898 | 1,424 |
| Contract liabilities | (6,327) | (1,607) |
| | 12,067 | 15,136 |

The contract assets primarily relate to the Group's rights to consideration for work completed but not billed at the reporting date on its tooling contracts in Technical Plastics.

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

All of the revenue deferred in the prior year and disclosed as contract liabilities, has been released to the income statement as revenue in the year ended 31 March 2021.

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

| | 2022 £000 |
|------------------------------|--------------|
| Tooling – Technical Plastics | 3,516 |
| | 3,516 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 31 March 2021

8 Operating profit

Operating profit is arrived at as follows:

| | 2021 £000 | 2020 £000 |
|--|----------------|--------------|
| Revenue | 107,564 | 110,506 |
| Decrease in stocks of finished goods and work in progress | (2,006) | (960) |
| Raw materials and consumables | 46,946 | 38,847 |
| Personnel expenses (see note 9) | 31,554 | 32,747 |
| Impairment loss on trade and other receivables, including contract assets | 14 | — |
| Amortisation of intangible assets | 206 | 172 |
| Depreciation of property, plant and equipment | 5,774 | 5,951 |
| Current auditor's remuneration: | | |
| Fees payable to the Company's auditor for the audit of the Company's annual accounts | 171 | 100 |
| Fees payable to the Company's auditor and its associates for other services: | | |
| The audit of the Company's subsidiaries, pursuant to legislation | 124 | 116 |
| Audit-related assurance services | 32 | — |
| Total current auditor's remuneration | 327 | 216 |
| Former auditor's remuneration: | | |
| Fees payable to the Company's auditor for the audit of the Company's annual accounts | — | 100 |
| Total former auditor's remuneration | — | 100 |
| Exceptional items: | | |
| Rationalisation costs (see note 10) | 1,968 | 4,065 |
| Past service credit in respect of retirement benefits (see note 24) | (6,458) | — |
| Impairment of Aerospace (see note 16) | — | 1,405 |
| Total exceptional items | (4,490) | 5,470 |
| Foreign exchange losses/(gains) | 745 | (328) |
| Pension scheme administration costs | 1,117 | 597 |
| Other operating charges | 18,047 | 25,851 |
| | 98,234 | 108,663 |
| Operating profit | 9,330 | 1,843 |

Exceptional rationalisation costs include £0.447 million (2020: £0.430 million) of pension scheme administration costs.

9 Personnel expenses

| | 2021 £000 | 2020 £000 |
|--|---------------|--------------|
| Wages and salaries | 26,951 | 38,701 |
| Social security contributions | 3,563 | 4,768 |
| Charge in respect of defined contribution and other pension plans | 1,039 | 1,481 |
| Share-based payments (see note 27) | 1 | 76 |
| | 31,554 | 45,026 |
| Exceptional credit regarding past service costs (see notes 10, 24) | (6,458) | — |
| | 25,096 | 45,026 |

The comparative period includes the personnel expenses of the discontinued operation, LED Technologies.

Redundancy costs of £0.012 million (2020: £0.076 million) are excluded from the above analysis and are included within exceptional items as set out in note 10.

No other staff costs (2020: £0.207 million) are excluded from the above analysis and are included within exceptional items as set out in note 10.

Directors' remuneration and emoluments, which are included in this analysis, are described in the Directors' remuneration report on pages 50 to 68.

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 average monthly number of persons employed by the Group during the year was as follows:

| | 2021 Number of employees | 2020 Number of employees |
|---------------------------------|--------------------------------|--------------------------------|
| By segment | | |
| Central | 20 | 20 |
| Technical Plastics | 967 | 971 |
| LED Technologies (discontinued) | — | 411 |
| Aerospace | 61 | 73 |
| | 1,048 | 1,475 |
| By geographic location | | |
| United Kingdom | 306 | 688 |
| North America | 378 | 377 |
| Rest of world | 364 | 410 |
| | 1,048 | 1,475 |

10 Exceptional items

| | 2021 £000 | 2020 £000 |
|---|--------------|-----------------|
| Continuing operations | | |
| Rationalisation costs | (1,968) | (4,065) |
| Gain in respect of retirement benefits – see note 24 | 6,458 | — |
| Impairment of Aerospace – see note 16 | — | (1,405) |
| | 4,490 | (5,470) |
| Discontinued operations | | |
| Rationalisation costs | (52) | (1,808) |
| Impairment of LED Technologies – see note 4 | — | (1,501) |
| Profit/(loss) on disposal of discontinued operations – see note 4 | 1,250 | (2,962) |
| | 1,198 | (6,271) |
| | 5,688 | (11,741) |

Rationalisation costs from continuing operations during the period relate to the restructuring and refinancing of the Group. These include £1.3 million in respect to legal and professional costs (2020: £3.0 million), £0.1 million for consultants' fees (2020: £0.3 million), and £0.5 million exceptional pension scheme administration costs (2020: £0.4 million) and £nil in respect of bank fees (2020: £0.3 million).

The gain in respect to retirement benefits is a past service credit for the impact of introducing a Bridging Pension Option, partly offset by a past service cost relating to GMP equalisation. See note 24 for more information.

The profit on disposal of discontinued operations of £1.3 million is proceeds received in the current year from the Administrators of Wipac Limited. The LED Technologies segment which was classified as discontinued in the prior year was made up of the two Wipac businesses.

Rationalisation costs on discontinued operations during the prior period related to the restructuring of the Wipac businesses; £0.8 million of this is in respect of the cost of exiting medium volume automotive lighting contracts, £1.0 million is in respect of legal and professional fees.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 31 March 2021

11 Government support for COVID-19

During the period the Group has utilised governmental support in its operating locations to mitigate the impact of COVID-19. Support has been in the form of grants, loans and deferral of tax payments.

The governmental support utilised during the period was:

| | 2021 £000 | 2020 £000 |
|---|--------------|--------------|
| Grants – used to offset labour and variable costs, included within operating expenses | 747 | — |
| Loans – presented in loans and borrowings | 2,104 | — |
| Payment deferrals – presented in trade and other payables | 68 | — |

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, presented as loans above at 31 March 2021. Subsequent to the balance sheet date, notice of loan forgiveness has been received, resulting in conversion of the proceeds from a loan to a grant. At 31 March 2021 there was insufficient certainty as to whether the conditions attached to the loan conversion had been met and as such the proceeds have been presented within loans and borrowings and no associated government grant income has been recognised in the results for the year ended 31 March 2021.

12 Finance revenue and expense

| | 2021 £000 | 2020 £000 |
|---|----------------|----------------|
| Finance revenue comprises: | | |
| Interest receivable on cash at bank | 42 | 103 |
| Finance revenue | 42 | 103 |
| Finance expense comprises: | | |
| Bank loans and overdrafts | (1,559) | (1,263) |
| Lease interest | (210) | (214) |
| Other | (90) | (89) |
| Net interest on the net defined benefit liability | (842) | (1,122) |
| Finance expense | (2,701) | (2,688) |

13 Income tax expense

The expense recognised in the consolidated income statement comprises:

| | 2021 £000 | 2020 £000 |
|---|--------------|----------------|
| United Kingdom corporation tax | | |
| Corporation tax on losses for the current year | 308 | — |
| Adjustments for prior years | — | 265 |
| Overseas taxation | | |
| Current tax | (564) | (1,350) |
| Adjustments for prior years | (37) | — |
| Total current tax net expense | (293) | (1,085) |
| Deferred tax expense | | |
| Origination and reversal of temporary differences: | | |
| Deferred tax | (80) | (364) |
| Adjustments for prior years | (84) | — |
| Total deferred tax charge – see note 23 | (164) | (364) |
| Total income tax expense recognised in the consolidated income statement | (457) | (1,449) |

Reconciliation of tax expense for the year

The tax assessed for the year is lower (2020: lower) than the standard rate of corporation tax in the UK. The differences are explained as follows:

| | 2021 | | 2020 | |
|---|--------------|--------------|---------|--------|
| | £000 | % | £000 | % |
| Profit/(loss) before tax | 7,869 | | (9,960) | |
| Income tax using standard rate of UK corporation tax of 19% (2020: 19%) | 1,495 | 19.0 | (1,893) | 19.0 |
| Other items not deductible for tax purposes | 99 | 1.3 | 2,768 | (27.8) |
| R&D tax relief | (26) | (0.3) | — | — |
| Losses attributable to Wipac | — | — | 3,311 | (33.2) |
| Income not taxable | (456) | (5.8) | (1,774) | 17.8 |
| Adjustments in respect of overseas tax rates | 62 | 0.8 | 286 | (2.9) |
| Release of tax provisions | (308) | (3.9) | — | — |
| Other temporary differences | (650) | (8.3) | (1,184) | 11.9 |
| Adjustment to current tax in respect of prior periods (UK and overseas) | 37 | 0.5 | (265) | 2.7 |
| Adjustments to deferred tax in respect of prior periods (UK and overseas) | 84 | 1.1 | — | — |
| Foreign taxes expensed in the UK | 120 | 1.5 | 200 | (2.0) |
| Total income tax expense | 457 | 5.8 | 1,449 | (14.5) |

A net tax credit of £nil (2020 charge: £0.013 million) has been classified as exceptional items, in relation to non-UK rationalisation and restructuring costs.

A net tax charge of £nil (2020 charge: £0.094 million) has been recognised on discontinued operations.

Tax on items charged outside of the consolidated income statement

| | 2021 £000 | 2020 £000 |
|--|--------------|--------------|
| Recognised in other comprehensive income: | | |
| Foreign exchange movements | (137) | 124 |
| Total income tax (credited)/charged to other comprehensive income | (137) | 124 |

14 Earnings per share

The calculation of basic earnings per share is based on the profit/(loss) 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 profit/(loss) 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:

| | 2021 £000 | 2020 £000 |
|--|-------------------|----------------|
| Profit/(loss) after tax but before profit/(loss) on discontinued operations | 6,214 | (1,900) |
| Loss attributable to non-controlling interests | — | — |
| Profit/(loss) attributable to ordinary shareholders from continuing operations | 6,214 | (1,900) |
| Profit/(loss) on discontinued operations, net of tax | 1,198 | (9,509) |
| Profit/(loss) after tax, attributable to equity holders of the parent | 7,412 | (11,409) |
| | 2021 Shares | 2020 Shares |
| Weighted average number of ordinary shares in the year | 73,419,193 | 73,419,193 |
| Effect of share options in issue | 15,974 | — |
| Weighted average number of ordinary shares (diluted) in the year | 73,435,167 | 73,419,193 |

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for the year ended 31 March 2021

14 Earnings per share continued

In addition, 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 one-off costs and the impact of property and business disposals, net of attributable taxes.

The following table reconciles the Group's profit to underlying profit used in the numerator in calculating underlying earnings per share:

| | 2021 £000 | 2020 £000 |
|---|--------------|--------------|
| Profit/(loss) after tax, attributable to equity holders of the parent | 7,412 | (11,409) |
| Continuing operations: | | |
| Exceptional – Rationalisation and restructuring costs, net of tax | 1,968 | 4,052 |
| Exceptional – Charge in respect of retirement benefits, net of tax | (6,458) | — |
| Exceptional – Impairment of Aerospace, net of tax | — | 1,405 |
| Discontinued operations: | | |
| Exceptional – Rationalisation and restructuring costs, net of tax | 52 | 1,807 |
| Exceptional – Impairment of LED Technologies, net of tax | — | 1,501 |
| (Gain)/loss on disposal of discontinued operations, net of tax | (1,250) | 2,962 |
| Underlying profit attributable to equity holders of the parent | 1,724 | 318 |
| Underlying operating profit – continuing operations | 4,840 | 7,313 |
| Finance revenue – continuing operations | 42 | 97 |
| Finance expense – continuing operations | (2,701) | (2,485) |
| Income tax expense – continuing operations | (457) | (1,355) |
| Underlying profit attributable to equity holders of the parent – continuing operations | 1,724 | 3,570 |

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

| | 2021 Pence | 2020 Pence |
|---|---------------|---------------|
| Basic earnings/(loss) per share – continuing operations | 8.5 | (2.6) |
| Basic earnings/(loss) per share – discontinued operations | 1.6 | (13.0) |
| Basic earnings/(loss) per share | 10.1 | (15.5) |
| Diluted earnings/(loss) per share – continuing operations | 8.5 | (2.6) |
| Diluted earnings/(loss) per share – discontinued operations | 1.6 | (13.0) |
| Diluted earnings/(loss) per share | 10.1 | (15.5) |
| Underlying earnings per share – basic – continuing operations | 2.4 | 4.9 |
| Underlying (loss) per share – basic – discontinued operations | — | (4.5) |
| Underlying earnings per share – basic | 2.4 | 0.4 |
| Underlying earnings per share – diluted – continuing operations | 2.4 | 4.9 |
| Underlying loss per share – diluted – discontinued operations | — | (4.5) |
| Underlying earnings/(loss) per share – diluted | 2.4 | 0.4 |

15 Dividends paid and proposed

The Directors are not proposing a final dividend for the year ended 31 March 2021 (2020: £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 in July 2023.

16 Intangible assets

| | Goodwill £000 | Patents and development costs £000 | Customer- related intangibles £000 | Computer software £000 | Total £000 |
|--|------------------|---|---|------------------------------|---------------|
| Cost | | | | | |
| Balance at 31 March 2019 | 25,684 | 29,814 | 1,042 | 2,257 | 58,797 |
| Additions | — | — | — | 19 | 19 |
| Acquisitions through business combinations | — | — | — | 16 | 16 |
| Disposals | (741) | (12,729) | — | (6) | (13,476) |
| Disposals of business | (1,070) | (351) | (487) | (645) | (2,553) |
| Effect of movements in foreign exchange | 254 | — | 28 | 23 | 305 |
| Balance at 31 March 2020 | 24,127 | 16,734 | 583 | 1,664 | 43,108 |
| Additions | — | — | — | 139 | 139 |
| Disposals | — | — | — | (11) | (11) |
| Effect of movements in foreign exchange | (1,719) | — | (56) | (51) | (1,826) |
| Balance at 31 March 2021 | 22,408 | 16,734 | 527 | 1,741 | 41,410 |
| Amortisation | | | | | |
| Balance at 31 March 2019 | 2,569 | 29,814 | 627 | 1,643 | 34,653 |
| Amortisation for the year | — | — | 58 | 114 | 172 |
| Impairment | 1,405 | — | — | — | 1,405 |
| Disposals | (741) | (12,729) | — | (6) | (13,476) |
| Disposals of business | (1,070) | (351) | (485) | (634) | (2,540) |
| Effect of movements in foreign exchange | 2 | — | 2 | 10 | 14 |
| Balance at 31 March 2020 | 2,165 | 16,734 | 202 | 1,127 | 20,228 |
| Amortisation for the year | — | — | 53 | 153 | 206 |
| Disposals | — | — | — | (6) | (6) |
| Effect of movements in foreign exchange | (822) | — | (20) | (24) | (866) |
| Balance at 31 March 2021 | 1,343 | 16,734 | 235 | 1,250 | 19,562 |
| Carrying amounts | | | | | |
| At 1 April 2019 | 23,115 | — | 415 | 614 | 24,144 |
| At 31 March 2020 | 21,962 | — | 381 | 537 | 22,880 |
| At 31 March 2021 | 21,065 | — | 292 | 491 | 21,848 |

The Group has incurred research and development costs of £0.1 million (2020: £1.0 million) which have been included within operating expenses in the income statement. Of those, research and development costs incurred by the Group's continuing operations totalled £0.1 million (2020: £0.2 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *continued*

for the year ended 31 March 2021

16 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 goodwill relating to the Aerospace cash generating unit was fully impaired in the year ended 31 March 2020, with an impairment charge of £1.405 million recognised. As such, the carrying value of goodwill at 31 March 2021 and 31 March 2020 is allocated wholly to the Technical Plastics cash generating unit as follows:

The following cash generating units have significant carrying amounts of goodwill post impairment:

| | 2021 £000 | 2020 £000 |
|--------------------|---------------|--------------|
| Technical Plastics | 21,065 | 21,962 |
| | 21,065 | 21,962 |

At 31 March 2021, the impairment review of the Technical Plastics cash generating unit was based on a calculation of value in use. This is a change from the prior year end when fair value less costs of disposal "FVLCD" was used. In the year to 31 March 2020, FVLCD had already been calculated and considered by management as part of the restructuring analysis underpinning the financing agreements and therefore it made sense to use this method to calculate the recoverable amount. The same exercise has not been undertaken this year; however, for completeness, management have used the multiples calculated by the third-party advisor in the prior year and applied them to the current year EBITDA forecasts in order to estimate FVLCD. The result produces 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 1.5% and 4.6% depending upon the market served.

The cash flows were discounted at pre-tax rates in the range 4.89% – 8.37%. These rates are calculated and reviewed annually. 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.

Subsequent to the balance sheet date, the CGU has been trading ahead of its plan; however, with all other assumptions being unchanged, a 7.75% increase in the discount rate increasing the range to 12.64% – 16.12%, or a 47% decrease in underlying EBIT would reduce the headroom on the Technical Plastics 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.

Sensitivity testing of the recoverable amount at prior year (FVLCD) demonstrated that a reduction in the earnings multiple of 1.5% applied to historical earnings would reduce the headroom to £nil.

17 Property, plant and equipment

| | Land and buildings £000 | Assets under construction £000 | Plant and equipment £000 | Total £000 |
|--|-------------------------------|--------------------------------------|--------------------------------|----------------|
| Cost | | | | |
| Balance at 31 March 2019 | 35,779 | 5,224 | 74,380 | 115,383 |
| Additions | 2,813 | — | 9,276 | 12,089 |
| Acquisitions through business combinations | — | — | 307 | 307 |
| Disposals | (9) | — | (3,332) | (3,341) |
| Disposal of business | (5,768) | (5,224) | (15,632) | (26,624) |
| Effect of movements in foreign exchange | 365 | — | 468 | 833 |
| Balance at 31 March 2020 | 33,180 | — | 65,467 | 98,647 |
| Additions | 5,011 | — | 5,363 | 10,374 |
| Disposals | (148) | — | (1,195) | (1,343) |
| Effect of movements in foreign exchange | (1,597) | — | (1,976) | (3,573) |
| Balance at 31 March 2021 | 36,446 | — | 67,659 | 104,105 |
| Depreciation and impairment losses | | | | |
| Balance at 31 March 2019 | 9,543 | 2,724 | 54,952 | 67,219 |
| Depreciation charge for the year | 2,968 | — | 3,797 | 6,765 |
| Disposals | (9) | — | (1,159) | (1,168) |
| Transfers | (1,093) | — | 1,093 | — |
| Impairment | — | — | 1,501 | 1,501 |
| Disposal of business | (612) | (2,724) | (13,201) | (16,537) |
| Effect of movements in foreign exchange | 183 | — | 289 | 472 |
| Balance at 31 March 2020 | 10,980 | — | 47,272 | 58,252 |
| Depreciation charge for the year | 2,508 | — | 3,266 | 5,774 |
| Disposals | — | — | (1,150) | (1,150) |
| Impairment | — | — | (13) | (13) |
| Effect of movements in foreign exchange | (640) | — | (1,336) | (1,976) |
| Balance at 31 March 2021 | 12,848 | — | 48,039 | 60,887 |
| Carrying amounts | | | | |
| At 1 April 2019 | 26,236 | 2,500 | 19,428 | 48,164 |
| At 31 March 2020 | 22,200 | — | 18,195 | 40,395 |
| At 31 March 2021 | 23,598 | — | 19,620 | 43,218 |

At 31 March 2021, properties with a carrying amount of £2.75 million were subject to a registered charge in favour of the Group pension scheme (2020: £2.815 million) capped at £5.1 million.

Property, plant and equipment includes right-of-use assets as set out in note 6.

The impact of the global pandemic on the Aerospace segment as a result of the downturn in air travel has been particularly hard, and the adverse effect on the division's customer base is deemed by management to be an indication of impairment. At 31 March 2021, management have calculated the value in use to support the recoverable amount of the Aerospace cash generating unit's net assets. The goodwill allocated to this segment was impaired in the prior year and as a result any impairment would be allocated primarily to the segment's fixed assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 31 March 2021

17 Property, plant and equipment continued

The value-in-use calculation uses cash flow projections based upon financial budgets approved by management covering a three-year period. At 31 March 2021, management believe that the recoverable amount of the Aerospace CGU supports the carrying value of the net assets and therefore there is no impairment. Management have applied judgement in these calculations, that air travel volumes return in the medium term, and that the business's profitability improves, as this is the basis upon which the budget has been prepared.

Subsequent to the balance sheet date, the CGU has been trading ahead of its plan; however, with all other assumptions being unchanged, a 12.5% increase in the discount rate or a 47% decrease in underlying EBIT would reduce the headroom on the Aerospace CGU to £nil. Should the discount rate increase further than this or the profitability decrease further, then an impairment of the fixed assets would be likely.

In respect to the prior year, an impairment review at 30 September 2019 identified an impairment of £1.501 million which was recognised on plant and equipment in respect of the LED Technologies operating segment. This was presented within exceptional items on discontinued operations. The LED Technologies segment was disposed of during the year ended 31 March 2020 – see note 4.

18 Inventories

| | 2021 £000 | 2020 £000 |
|-------------------------------|---------------|---------------|
| Raw materials and consumables | 6,218 | 5,592 |
| Work in progress | 319 | 579 |
| Finished goods | 6,284 | 8,030 |
| | 12,821 | 14,201 |

The value of inventories is stated after impairment for obsolescence and write downs to net realisable value of £1.043 million (2020: £1.306 million).

19 Contract assets

| | 2021 £000 | 2020 £000 |
|------------------------------|--------------|--------------|
| Contract assets – see note 7 | 2,898 | 1,424 |

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 are therefore £nil.

20 Trade and other receivables

| | 2021 £000 | 2020 £000 |
|--|---------------|---------------|
| Amounts due within one year | | |
| Trade receivables | 15,512 | 15,359 |
| Less impairment provisions | (16) | (40) |
| | 15,496 | 15,319 |
| Prepayments | 1,361 | 1,187 |
| Other debtors | 2,397 | 3,269 |
| Trade and other receivables – due within one year | 19,254 | 19,775 |
| Amounts due after one year | | |
| Other debtors and prepayments | 112 | 114 |
| Trade and other receivables – due after one year | 112 | 114 |

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 COVID-19 on credit risk.

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 2021 was determined as follows for trade receivables:

| | 2021 | | | 2020 | | |
|------------------------|-------------------------------------|---------------------------|----------------------------|-------------------------------------|---------------------------|----------------------------|
| | Gross carrying amount £000 | Loss allowance £000 | Expected loss rate % | Gross carrying amount £000 | Loss allowance £000 | Expected loss rate % |
| Not past due | 13,413 | — | 0.0% | 12,229 | — | 0.0% |
| Past due 0 – 30 days | 1,973 | — | 0.0% | 1,934 | — | 0.0% |
| Past due 31 – 60 days | 50 | — | 0.0% | 954 | — | 0.0% |
| Past due 61 – 120 days | 58 | — | 0.0% | 156 | — | 0.0% |
| More than 120 days | 18 | 16 | 88.9% | 62 | 16 | 25.8% |
| | 15,512 | 16 | 0.1% | 15,335 | 16 | 0.1% |

The movement in the allowance for impairment in respect of trade receivables and contract assets during the period was as follows:

| | 2021 £000 | 2020 £000 |
|-----------------------------------|--------------|--------------|
| Balance at 1 April | 16 | 23 |
| Amounts written off | — | — |
| Net measurement of loss allowance | — | (7) |
| Balance at 31 March | 16 | 16 |

21 Cash and cash deposits

| | 2021 £000 | 2020 £000 |
|--------------------------|--------------|--------------|
| Cash at bank and in hand | 15,485 | 19,309 |
| | 15,485 | 19,309 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 31 March 2021

22 Loans and borrowings

| | 2021 £000 | 2020 £000 |
|--|---------------|--------------|
| Current | | |
| Bank overdrafts | — | 10,957 |
| Bank loans: | | |
| Term loan | 1,473 | — |
| Revolving credit facility | — | 30,442 |
| Government COVID-19 support loans | 2,104 | — |
| Lease liabilities: | | |
| Land and buildings | 1,291 | 1,236 |
| Plant and equipment | 176 | 169 |
| Other loans | 40 | — |
| | 5,084 | 42,804 |
| Non-current | | |
| Bank loans repayable between one and two years: | | |
| Term loan | 1,273 | — |
| Revolving credit facility | — | — |
| Bank loans repayable between two and five years: | | |
| Term loan | 29,066 | — |
| Revolving credit facility | 2,000 | — |
| Lease liabilities: | | |
| Land and buildings | 4,880 | 3,358 |
| Plant and equipment | 708 | 487 |
| Other loans repayable between one and two years | 42 | 17 |
| Other loans repayable between two and five years | 28 | — |
| | 37,997 | 3,862 |
| Total loans and borrowings | 43,081 | 46,666 |

The Group has a net UK multi-currency overdraft facility with a £nil net limit and a £12.5 million gross limit agreed as part of the refinancing arrangement signed 14 August 2020. The overdrafts bear interest at between 2.0% and 4.5% above prevailing UK bank base rates. At 31 March 2021, Carclo plc's overdraft of £4.6 million has been recognised within cash and cash deposits when consolidated.

On 14 August 2020, the Group concluded a restructuring with the Company's main creditors, being its bank, HSBC, and the pension scheme, to secure continued support from these parties through to 31 July 2023. The debt facilities made available to the Group comprised multi-currency term loans initially valued at £34.5 million and a £3.5 million revolving credit facility denominated in sterling.

At commencement, the term loan comprised facilities denominated in the following currencies: sterling £19.5 million, US dollar \$13.7 million and euro 5 million. £3 million of the sterling facility will be amortised by 30 September 2022 (commencing 30 June 2021), with the balance on this and the two foreign currency facilities payable at termination – 21 July 2023. This additional £3 million was provided to allow additional headroom within the Group, in order to deal with uncertainty in short-term cash flows due to the existing economic climate. Carclo plc is required, per the agreement, to prepay borrowings of amounts equal to excess cash arising from disposal, intercompany and insurance proceeds. During the year to 31 March 2021, proceeds amounting to £1.3 million were received from the Administrators of Wipac Ltd by HSBC and were used to prepay the term loan. In addition to this, a further £0.3 million was prepaid by the Company to further reduce the loan during the period.

The bank facilities are subject to four covenants to be tested on a quarterly basis:

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 on 1 May each year up to and including 2023. In FY21 the test was met by the payment of the agreed schedule of contributions. In subsequent years the test requires any shortfall of pension deficit recovery contributions when measured against PPF 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 businesses based on EBITDA multiples for those businesses which are to be determined annually.

The Group has complied with the financial covenants of its borrowing facilities during the financial reporting period.

Under the terms of the restructuring agreement, the Group is not permitted to make a dividend payment to the shareholders of Carclo plc up to the period ending in July 2023.

Bank loans include £33.8 million (2020: £30.4 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.

As part of the debt restructuring which concluded on 14 August 2020, additional security was granted by certain Group companies to the bank such that at 31 March 2021 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 £251.2 million (2020: £25.4 million).

Excluding the assets which eliminate in the Group upon consolidation the value of the security was £32.8 million (2020: £25.0 million).

Bank loans presented in the comparative period were medium-term multi-currency revolving loan facilities totalling £30.0 million. At 31 March 2020 these facilities were drawn to the extent of £30.4 million, which was possible due to a foreign exchange allowance included in the facility, and incurred interest at the rate of between 1.10% and 3.75% above the relevant currency base rate. As a result of movements in foreign exchange rates between 31 March 2020 and 18 August 2020 (when repayment was made) the final balance repaid to the bank was £30.1 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 31 March 2021

22 Loans and borrowings continued

Reconciliation of movements of liabilities to cash flows arising from financing activities

| | Bank overdrafts used for cash management purposes £000 | Term loan £000 | Government COVID-19 support loan £000 | Revolving credit facility £000 | Lease liabilities £000 | Other loans £000 | Total £000 |
|---|--|----------------------|--|--------------------------------------|------------------------------|------------------------|---------------|
| Balance at 31 March 2019 | 17,368 | — | — | 29,893 | 7,193 | 26 | 54,480 |
| Changes from financing cash flows | | | | | | | |
| Repayment of other loan facilities | — | — | — | — | — | (9) | (9) |
| Repayment of finance leases | — | — | — | — | (3,122) | — | (3,122) |
| | — | — | — | — | (3,122) | (9) | (3,131) |
| Effect of changes in foreign exchange rates | 54 | — | — | 549 | — | — | 603 |
| Liability-related other changes | | | | | | | |
| Changes in bank overdraft | (7,746) | — | — | — | — | — | (7,746) |
| Disposal of business (see note 4) | (183) | — | — | — | (1,481) | — | (1,664) |
| New lease liabilities | — | — | — | — | 2,660 | — | 2,660 |
| Interest expense | 1,568 | — | — | — | — | — | 1,568 |
| Interest receivable | (104) | — | — | — | — | — | (104) |
| | (6,465) | — | — | — | 1,179 | — | (5,286) |
| Equity-related other changes | — | — | — | — | — | — | — |
| Balance at 31 March 2020 | 10,957 | — | — | 30,442 | 5,250 | 17 | 46,666 |
| Changes from financing cash flows | | | | | | | |
| Drawings on new facilities | — | 34,354 | 2,243 | 2,000 | — | 100 | 38,697 |
| Transaction costs associated with the issue of debt | — | (380) | — | — | — | — | (380) |
| Repayment of borrowings | — | (1,589) | — | (30,071) | (1,601) | (6) | (33,267) |
| | — | 32,385 | 2,243 | (28,071) | (1,601) | 94 | 5,050 |
| Effect of changes in foreign exchange rates | — | (657) | (139) | (371) | (215) | (1) | (1,383) |
| Liability-related other changes | | | | | | | |
| Changes in bank overdraft | 2,184 | — | — | — | — | — | 2,184 |
| Drawings on new facilities | — | — | — | — | 3,769 | — | 3,769 |
| Termination of facilities | (13,193) | — | — | — | (148) | — | (13,341) |
| Interest expense | 61 | 84 | — | — | — | — | 145 |
| Interest receivable | (9) | — | — | — | — | — | (9) |
| | (10,957) | 84 | — | — | 3,621 | — | (7,252) |
| Equity-related other changes | — | — | — | — | — | — | — |
| Balance at 31 March 2021 | — | 31,812 | 2,104 | 2,000 | 7,055 | 110 | 43,081 |

23 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

| | 2021 £000 | 2020 £000 |
|--|----------------|--------------|
| Assets: | | |
| Short-term timing differences | 252 | 242 |
| Tax losses | 132 | 165 |
| Deferred tax assets | 384 | 407 |
| Liabilities: | | |
| Intangible assets | (2,516) | (2,654) |
| Property, plant and equipment | (1,400) | (1,271) |
| Short-term timing differences | (284) | (234) |
| Foreign tax on undistributed foreign profits | (193) | (400) |
| Deferred tax liabilities | (4,393) | (4,559) |
| Net deferred tax liability | (4,009) | (4,152) |

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

| | 2021 £000 | 2020 £000 |
|-------------------------------|---------------|--------------|
| Tax losses – trading | 5,174 | 2,198 |
| Tax losses – capital | 529 | 253 |
| Tax losses – non-trading | 35 | 692 |
| Property, plant and equipment | 702 | 873 |
| Short-term timing differences | 62 | 10 |
| Employee benefits | 7,086 | 7,674 |
| | 13,588 | 11,700 |

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 of the 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. Capital losses will be recognised at the point when a transaction gives rise to an offsetable capital gain. This was not the case at 31 March 2021. Similarly, non-trading losses will only be utilised against future non-trading profits. No such non-trading profits are foreseen at 31 March 2021.

£0.1 million of the tax losses recognised at 31 March 2021 are time restricted to five years, the remainder are available to carry forward without time restriction.

At 31 March 2021 £0.2 million of deferred tax liabilities were recognised for taxes that would be deductible on the unremitted earnings of the Group's overseas subsidiary undertakings (2020: £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 £0.6 million of additional tax would be payable (2020: £0.8 million).

Deferred tax assets and liabilities at 31 March 2021 have been calculated based on the rates substantively enacted at the balance sheet date.

The UK Budget on 3 March 2021 included an announcement that the corporation tax rate will increase to 25% from 1 April 2023 for certain companies. However, this increase has not yet been substantively enacted. Under IAS 12, deferred tax is required to be calculated using rates that have been substantively enacted at the balance sheet date, hence 19% has continued to be used. The impact to deferred tax of an increase to 25% in the UK tax rate is not expected to be material.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 31 March 2021

23 Deferred tax assets and liabilities continued

Reconciliation of movement in recognised deferred tax assets

| | Balance as at 1 Apr 20 £000 | Recognised in income £000 | Recognised in equity £000 | Balance as at 31 Mar 21 £000 |
|--|--------------------------------------|---------------------------------|---------------------------------|---------------------------------------|
| Property, plant and equipment | (1,271) | (304) | 175 | (1,400) |
| Intangible assets | (2,654) | — | 138 | (2,516) |
| Short-term timing differences | 8 | (38) | (2) | (32) |
| Tax losses | 165 | (29) | (4) | 132 |
| Foreign tax on undistributed foreign profits | (400) | 207 | — | (193) |
| | (4,152) | (164) | 307 | (4,009) |

| | Balance as at 1 Apr 19 £000 | Recognised in income £000 | Recognised in equity £000 | Balance as at 31 Mar 20 £000 |
|--|--------------------------------------|---------------------------------|---------------------------------|---------------------------------------|
| Property, plant and equipment | (1,480) | 209 | — | (1,271) |
| Intangible assets | (2,416) | (59) | (179) | (2,654) |
| Employee benefits | — | — | — | — |
| Share-based payments | — | — | — | — |
| Short-term timing differences | 120 | (112) | — | 8 |
| Tax losses | 287 | (122) | — | 165 |
| Foreign tax on undistributed foreign profits | (120) | (280) | — | (400) |
| | (3,609) | (364) | (179) | (4,152) |

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 2,735 current and past employees as at 31 March 2021.

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. During the year to 31 March 2021, the Scheme introduced a Bridging Pension Option ("BPO"), see below for further details. 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 2018 in accordance with the scheme funding requirements of the Pensions Act 2004. The funding of the Scheme is agreed between the Group and the trustees in line with those requirements. These in particular require the surplus or deficit to be calculated using prudent, as opposed to best estimate, actuarial assumptions. This 31 March 2018 actuarial valuation showed a deficit of £90.4 million. Under the recovery plan agreed with the trustees following the 2018 valuation, the Group agreed that it would aim to eliminate the deficit over a period of 19 years 9 months from 1 February 2021, which is by 31 October 2040, by the payment of the following annual contributions combined with the assumed asset returns in excess of gilt yields: £2.8 million in the year to 31 March 2021, £3.9 million during the year to 31 March 2022 and £3.8 million in the year ending March 2023; these contributions include an allowance of £0.6 million p.a. in respect of the expenses of running the Scheme and the Pension Protection Fund ("PPF") levy.

Beyond 2023, a schedule of contributions for £3.5 million annually is in place until 31 October 2040, but is reviewed and reconsidered between the employer and the trustees at each triennial actuarial valuation; the next review being no later than 30 June 2022 after the results of the 31 March 2021 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 2021 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 £251.2 million (2020: £2.8 million).

Excluding the assets which eliminate in the Group upon consolidation the value of the security was £37.9 million (2020: £2.8 million).

For the purposes of IAS 19, the results of the actuarial valuation as at 31 March 2018, which was carried out by a qualified independent actuary, have been updated on an approximate basis to 31 March 2021. There have been no changes in the valuation methodology adopted for this period's disclosures compared to the previous period's disclosures.

The Scheme exposes the Group to actuarial risks and the key risks are set out in the table below. In each instance these risks would detrimentally impact the Group's 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.

| 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 54% of its asset value in a portfolio of diversified growth funds, 42% in liability-driven investments and 4% in cash and liquidity funds. |
| 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 96% of the Scheme's funded liabilities are currently hedged against interest rates using liability-driven investments. Note that the Scheme hedges interest rate risk on a statutory and long-term funding basis (gilts) whereas AA corporate bonds are implicit in the IAS 19 discount rate and so there is some mismatching risk to the Group should yields on gilts and corporate bonds diverge. |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 31 March 2021

24 Retirement benefit obligations continued

| Risk | Description | Mitigation |
|-----------------------|--|---|
| 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 83% 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:

| | 2021 £000 | 2020 £000 |
|---|-----------------|-----------------|
| Present value of funded obligations | (204,654) | (210,386) |
| Fair value of scheme assets | 167,379 | 172,766 |
| Recognised liability for defined benefit obligations | (37,275) | (37,620) |

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.

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 £49.336 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:

| | 2021 £000 | 2020 £000 |
|--|-----------------|-----------------|
| Net liability for defined benefit obligations at the start of the year | (37,620) | (49,121) |
| Contributions paid | 2,834 | 5,051 |
| Net credit/(expense) recognised in the consolidated income statement (see below) | 4,052 | (1,122) |
| Remeasurement (losses)/gains recognised in other comprehensive income | (6,541) | 7,572 |
| Net liability for defined benefit obligations at the end of the year | (37,275) | (37,620) |

Movements in the present value of defined benefit obligations:

| | 2021 £000 | 2020 £000 |
|--|----------------|----------------|
| Defined benefit obligation at the start of the year | 210,386 | 215,391 |
| Interest expense | 4,730 | 5,036 |
| Actuarial gains due to scheme experience | — | (393) |
| Actuarial (gains)/losses due to changes in demographic assumptions | (6,727) | 1,528 |
| Actuarial losses due to changes in financial assumptions | 12,280 | 237 |
| Benefits paid | (9,557) | (11,413) |
| Past service credit (see note 10) | (6,458) | — |
| Defined benefit obligation at the end of the year | 204,654 | 210,386 |

With the exception of that described below, there have been no plan amendments, curtailments or settlements during the period.

The scheme introduced a Bridging Pension Option ("BPO") at retirement during the year. A change to the Scheme rules was needed in order to provide this option and an announcement was made to members shortly before 31 March 2021.

The Company and trustees agreed to set the BPO exchange terms such that 20% of the value is retained within the Scheme. Based upon the assumption that 40% of members will opt for BPO in excess of the standard pension commencement lump sum available from the Scheme, this resulted in a reduction in the current value of the accrued liabilities and as a result a past service credit has been recognised in the income statement of £6.689 million in the current year and 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.

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

The trustees commissioned scheme-specific calculations to determine the likely impact of the ruling on the Scheme. An allowance for the impact of GMP equalisation was included within the 31 March 2019 accounting figures, increasing liabilities by 1.68%, a resulting past service cost of £3.559 million was recognised in the income statement at that time. There has been no change to the allowance made for the purposes of the 2021 and 2020 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 is estimated to cost £0.231 million (approximately 0.1% of liabilities). This additional service cost has been recognised through the income statement as a past service cost in the year ending 31 March 2021 and has been presented within exceptional items.

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

| | 2021 % | 2020 % |
|------------|------------|------------|
| Active | — | — |
| Deferred | 35 | 43 |
| Pensioners | 65 | 57 |
| | 100 | 100 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 31 March 2021

24 Retirement benefit obligations continued

Movements in the fair value of Scheme assets:

| | 2021 £000 | 2020 £000 |
|---|----------------|----------------|
| Fair value of Scheme assets at the start of the year | 172,766 | 166,270 |
| Interest income | 3,888 | 3,914 |
| (Loss)/return on Scheme assets excluding interest income | (988) | 8,944 |
| Contributions by employer | 2,834 | 5,051 |
| Benefits paid | (9,557) | (11,413) |
| Expenses paid | (1,564) | — |
| Fair value of Scheme assets at the end of the year | 167,379 | 172,766 |
| Actual return on Scheme assets | 2,900 | 12,858 |

The fair value of Scheme asset investments was as follows:

| | 2021 £000 | 2020 £000 |
|---|----------------|----------------|
| Diversified growth funds | 90,177 | 115,046 |
| Bonds and liability-driven investment funds | 71,044 | 56,725 |
| Cash and liquidity funds | 6,158 | 995 |
| Total assets | 167,379 | 172,766 |

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 (gain)/expense recognised in the consolidated income statement was as follows:

| | 2021 £000 | 2020 £000 |
|---|----------------|--------------|
| Past service credit | (6,458) | — |
| Net interest on the net defined benefit liability | 842 | 1,122 |
| Scheme administration expenses | 1,564 | — |
| | (4,052) | 1,122 |

In the comparative period scheme administration expenses were presented as a deduction from contributions paid by employer.

The net (gain)/expense is recognised in the following line items in the consolidated income statement:

| | 2021 £000 | 2020 £000 |
|---|----------------|--------------|
| Charged to operating profit | 1,117 | — |
| Credited to exceptional items | (6,011) | — |
| Other finance revenue and expense – net interest on the net defined benefit liability | 842 | 1,122 |
| | (4,052) | 1,122 |

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

| | 2021 | 2020 |
|---|--------------|-------|
| Discount rate at 31 March | 2.00% | 2.30% |
| Future salary increases | N/A | N/A |
| Inflation (RPI) (non-pensioner) | 3.25% | 2.80% |
| Inflation (CPI) (non-pensioner) | 2.75% | 2.30% |
| Allowance for revaluation of deferred pensions of RPI or 5% p.a. if less | 3.25% | 2.80% |
| Allowance for revaluation of deferred pensions of CPI or 5% p.a. if less | 2.75% | 2.30% |
| Allowance for pension in payment increases of RPI or 5% p.a. if less | 3.15% | 2.70% |
| Allowance for pension in payment increases of CPI or 3% p.a. if less | 2.30% | 2.30% |
| Allowance for pension in payment increases of RPI or 5% p.a. if less, minimum 3% p.a. | 3.65% | 3.00% |
| Allowance for pension in payment increases of RPI or 5% p.a. if less, minimum 4% p.a. | 4.20% | 4.00% |

The mortality assumptions adopted at 31 March 2021 are 143% and 153% respectively of the standard tables S3PMA/S3PFA (2020: 137% S3PMA/S3PFA_M), year of birth, no age rating for males and females, projected using CMI_2020 converging to 1.00% p.a. (2020: 1.00%) with a smoothing parameter 7.0 (2020: 7.5).

It is recognised that the Core CMI_2020 model is likely to represent an overly cautious view of experience in the near term. As a result, management have applied judgement and the CMI_2020 model has been adopted with a 2020 weighting parameter of 10% to represent possible future trend as a best estimate. These assumptions imply the following life expectancies:

| | 2021 | 2020 |
|--|-------------------|------------|
| Life expectancy for a male (current pensioner) aged 65 | 19.0 years | 19.6 years |
| Life expectancy for a female (current pensioner) aged 65 | 21.0 years | 21.3 years |
| Life expectancy at 65 for a male aged 45 | 19.9 years | 20.6 years |
| Life expectancy at 65 for a female aged 45 | 22.2 years | 22.6 years |

It is assumed that 75% of the post A-Day maximum for active and deferred members will be commuted for cash (2020: 75%).

Bridging Pension Option ("BPO") take-up is assumed to be 40% (2020: n/a).

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.

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

| | 2021 % | 2021 £000 | 2020 % | 2020 £000 |
|----------------------------------|----------------|----------------|-----------|--------------|
| Discount rate¹ | | | | |
| Increase of 0.25% per annum | (3.43)% | (7,014) | — | — |
| Decrease of 0.25% per annum | 3.61% | 7,396 | 3.60% | 7,574 |
| Decrease of 1.0% per annum | 15.71% | 32,147 | 15.7% | 33,031 |
| Inflation² | | | | |
| Increase of 0.25% per annum | 1.14% | 2,334 | 2.00% | 4,208 |
| Increase of 1.0% per annum | 4.89% | 10,004 | 7.60% | 15,989 |
| Decrease of 0.1% per annum | (0.45)% | (923) | (0.80)% | (1,683) |
| Life expectancy | | | | |
| Increase of 1 year | 5.06% | 10,355 | 3.80% | 7,995 |

1. At 31 March 2021, the assumed discount rate is 2.00% (2020: 2.30%). An increase in the discount rate was not calculated in the comparative period.

2. At 31 March 2021, the assumed rate of RPI inflation is 3.25% and CPI inflation 2.75% (2020: RPI 2.80% and CPI 2.30%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 31 March 2021

24 Retirement benefit obligations continued

The sensitivities shown 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 2021 is 15 years (2020: 14 years).

The life expectancy assumption at 31 March 2021 is based upon increasing the age rating assumption by one year. In the prior year the life expectancy assumption was applied by allowing for an increase/decrease in life expectation from age 60 of one year, based upon the approximate weighted average age of the scheme.

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:

| | 2021 £000 | 2020 £000 |
|--|--------------|--------------|
| Present value of funded obligation | (204,654) | (210,386) |
| Fair value of scheme asset investments | 167,379 | 172,766 |
| Recognised liability for defined benefit obligations | (37,275) | (37,620) |
| Actual return on scheme assets | 2,900 | 12,858 |
| Actuarial gains due to scheme experience | — | 393 |
| Actuarial gains/(losses) due to changes in demographic assumptions | 6,727 | (1,528) |
| Actuarial losses due to changes in financial assumptions | (12,280) | (237) |

25 Provisions

| | 2021 | | 2020 | |
|--|----------------------|---------------|----------------------|---------------|
| | Site closure £000 | Total £000 | Site closure £000 | Total £000 |
| Provisions at the start of the year | 23 | 23 | 333 | 333 |
| Provisions used in the period | (23) | (23) | (310) | (310) |
| Provisions at the end of the year | — | — | 23 | 23 |
| Non-current | — | — | — | — |
| Current | — | — | 23 | 23 |
| | — | — | 23 | 23 |

The site closure provision was in respect of exit costs for a site leased by a legacy Group business.

26 Trade and other payables – falling due within one year

| | 2021 £000 | 2020 £000 |
|---------------------------------------|--------------|--------------|
| Trade payables | 8,614 | 10,561 |
| Other taxes and social security costs | 2,038 | 2,137 |
| Other creditors | 1,728 | 1,732 |
| Accruals | 4,636 | 3,990 |
| | 17,016 | 18,420 |

27 Ordinary share capital

Ordinary shares of 5 pence each

| | Number of shares | £000 |
|---|-------------------|--------------|
| Issued and fully paid at 31 March 2020 | 73,419,193 | 3,671 |
| Issued and fully paid at 31 March 2021 | 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 which will become issuable at the end of a holding period on 18 July 2021.

There are 133,000 potential share options outstanding under the performance share plan at 31 March 2021.

Outstanding awards under the performance share plan are as follows:

| | Date granted | Number of shares | Price | Earliest date of vesting |
|------------------------|--------------|------------------|------------|--------------------------|
| Performance share plan | 31 July 2018 | 133,000 | nil | 31 July 2021 |
| | n/a | — | n/a | n/a |
| | n/a | — | n/a | n/a |

The share options have been awarded to Executive Directors and senior managers within the Group.

The vesting conditions for all share option schemes are three years of service plus the satisfaction of specified performance criteria.

Under the provisions of IFRS 2 a charge is recognised for those share options and awards under the performance share plan issued after 7 November 2002. The Monte-Carlo model is used to calculate the fair value of the performance share plan awards.

There was no issue of share options during the period ended 31 March 2021.

The amounts recognised in the income statement arising from equity-settled share-based payments was a charge of £0.026 million (2020: charge of £0.083 million).

The number and weighted average exercise prices of share options and performance share plan awards is as follows:

| | 2021 | | 2020 | |
|---|---------------------------------------|------------------|---------------------------------------|------------------|
| | Weighted average exercise price pence | Number of shares | Weighted average exercise price pence | Number of shares |
| Outstanding at 1 April | — | 246,333 | — | 1,389,333 |
| Lapsed during the period | — | (97,359) | — | (1,143,000) |
| Exercised during the period | — | — | — | — |
| Granted during the period | — | — | — | — |
| Outstanding at the end of the period | — | 148,974 | — | 246,333 |
| Exercisable at 31 March | | — | | — |
| Weighted average remaining life at 31 March | | 0 months | | 0 months |

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 2021 the plan held 3,077 shares (2020: 3,077 shares).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 31 March 2021

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 is sought for all customers where exposure is in excess of £10,000 but with an aggregate first loss threshold of £0.2 million. In certain instances credit insurance cannot always be obtained or cover has been withdrawn. In such instances payment terms are re-negotiated and internal credit limits established. 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 £1.5 million at 31 March 2021 (2020: undrawn net overdraft facility £5.363 million) which are available to mitigate any liquidity risk.

The maximum exposure to credit risk as at 31 March was:

| | 2021 £000 | 2020 £000 |
|--|--------------|--------------|
| Trade receivables, net of attributable impairment provisions (see note 20) | 15,496 | 15,319 |
| Cash and cash deposits (see note 21) | 15,485 | 19,309 |
| Contract assets (see note 7) | 2,898 | 1,424 |
| | 33,879 | 36,052 |

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:

| | 2021 £000 | 2020 £000 |
|---|---------------|---------------|
| United Kingdom | 2,340 | 6,131 |
| Rest of Europe | 3,135 | 1,550 |
| North America | 6,291 | 5,474 |
| Rest of world | 3,730 | 2,164 |
| Trade receivables, net of attributable impairment provisions | 15,496 | 15,319 |
| United Kingdom | 1,333 | 257 |
| Rest of Europe | 479 | 1,167 |
| North America | 463 | — |
| Rest of world | 623 | — |
| Contract assets, net of attributable impairment provisions | 2,898 | 1,424 |

b) Interest rate risk

The Group's borrowings are on fixed and floating rate terms. In the year to 31 March 2021, interest rates have remained low. This has kept the interest charge borne by the Group at a level comparable with the prior year.

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 | Non-interest bearing payable £000 | Total £000 |
|----------------------------|---|--|--|---------------|
| As at 31 March 2021 | | | | |
| Sterling | 3,730 | 19,954 | — | 23,684 |
| US dollar | 3,583 | 9,672 | — | 13,255 |
| Euro | 149 | 4,187 | — | 4,336 |
| Other | 1,806 | — | — | 1,806 |
| | 9,268 | 33,813 | — | 43,081 |
| As at 31 March 2020 | | | | |
| Sterling | 1,456 | 41,399 | — | 42,855 |
| US dollar | 1,533 | — | 18 | 1,551 |
| Euro | 1,351 | — | — | 1,351 |
| Other | 909 | — | — | 909 |
| | 5,249 | 41,399 | 18 | 46,666 |

The interest rate profile of financial assets by currency of the Group as at 31 March was as follows:

| | Floating rate interest (payable)/ receivable £000 | No interest receivable £000 | Total £000 |
|----------------------------|---|-----------------------------------|---------------|
| As at 31 March 2021 | | | |
| Sterling | (1,424) | 251 | (1,173) |
| US dollar | 9,272 | 95 | 9,367 |
| Euro | 991 | 1,979 | 2,970 |
| Other | 797 | 3,524 | 4,321 |
| | 9,636 | 5,849 | 15,485 |
| As at 31 March 2020 | | | |
| Sterling | 342 | 1,209 | 1,551 |
| US dollar | 6,472 | 4,097 | 10,569 |
| Euro | 1,607 | 1,289 | 2,896 |
| Other | 817 | 3,476 | 4,293 |
| | 9,238 | 10,071 | 19,309 |

The floating rate of interest earned on cash balances is in the range bank base - 1% to bank base + 2%.

The Group has a net UK multi-currency overdraft facility with a £nil net limit and a £12.5 million gross limit agreed as part of the refinancing arrangement signed 14 August 2020. The overdrafts bear interest at between 2.0% and 4.5% above prevailing UK bank base rates. At 31 March 2021, Carclo plc's overdraft of £4.6 million has been recognised within cash and cash deposits when consolidated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 31 March 2021

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 changes in the Group's borrowing facilities during the year to 31 March 2021.

As detailed in note 22, at 31 March 2021 the Group had a committed term loan outstanding of £32.1 million (2020: revolving loan facility £30 million), a committed revolving credit facility available of £3.5 million which is £2 million drawn (2020: £nil) and additional UK net overdraft facilities totalling £nil (2020: £5.815 million) which is repayable on demand.

The Group's net debt at 31 March 2021 was £27.596 million (2020: £27.357 million). The net debt comprised £43.081 million interest bearing loans and borrowings (see note 22) less £15.485 million cash and cash deposits (see note 21).

The Group's term loan and revolving credit facilities are available in the UK; net overdraft facilities in the UK totalled £nil at 31 March 2021 and as such the plc overdraft at year end of £4.6 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:

| | Bank overdrafts £000 | Term loan £000 | Government COVID-19 support loans £000 | Revolving credit facility £000 | Other loans £000 | Lease liabilities £000 | Total £000 |
|----------------------------|-------------------------|-------------------|---|-----------------------------------|---------------------|---------------------------|---------------|
| As at 31 March 2021 | | | | | | | |
| Within 1 year | — | 1,473 | 1,987 | — | 40 | 1,467 | 4,967 |
| Within 1 to 2 years | — | 1,273 | 117 | — | 42 | 1,494 | 2,926 |
| Within 2 to 5 years | — | 29,066 | — | 2,000 | 28 | 2,990 | 34,084 |
| More than 5 years | — | — | — | — | — | 1,104 | 1,104 |
| | — | 31,812 | 2,104 | 2,000 | 110 | 7,054 | 43,081 |
| As at 31 March 2020 | | | | | | | |
| Within 1 year | 10,957 | — | — | 30,442 | — | 1,405 | 42,804 |
| Within 1 to 2 years | — | — | — | — | 17 | 1,682 | 1,699 |
| Within 2 to 5 years | — | — | — | — | — | 1,550 | 1,550 |
| More than 5 years | — | — | — | — | — | 613 | 613 |
| | 10,957 | — | — | 30,442 | 17 | 5,250 | 46,666 |

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\$9.7 million (2020: US\$10.600 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 €4.2 million (2020: €7.500 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:

| | 2021 | | 2020 | |
|-------------|-------------------------------|--------------------------|-------------------------------|--------------------------|
| | Less than 6 months £000 | 6 - 12 months £000 | Less than 6 months £000 | 6 - 12 months £000 |
| Assets | 1,664 | — | 2,056 | — |
| Liabilities | — | — | — | — |
| | 1,664 | — | 2,056 | — |

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 2021 | | | | | |
| Trade receivables, net of attributable impairment provisions | 4,059 | 6,550 | 2,460 | 2,427 | 15,496 |
| Trade payables | (2,064) | (4,143) | (1,700) | (707) | (8,614) |
| Net | 1,995 | 2,407 | 760 | 1,720 | 6,882 |
| As at 31 March 2020 | | | | | |
| Trade receivables, net of attributable impairment provisions | 4,998 | 5,737 | 2,703 | 1,881 | 15,319 |
| Trade payables | (3,056) | (4,720) | (1,022) | (1,763) | (10,561) |
| Net | 1,942 | 1,017 | 1,681 | 118 | 4,758 |

The following table summarises the main exchange rates used during the year:

| | Average rate | | Reporting date mid-market rate | |
|-----------------------|--------------|------|-----------------------------------|------|
| | 2021 | 2020 | 2021 | 2020 |
| Sterling/US dollar | 1.31 | 1.28 | 1.38 | 1.25 |
| Sterling/euro | 1.12 | 1.16 | 1.18 | 1.13 |
| Sterling/Czech koruna | 29.8 | 29.7 | 30.7 | 30.9 |
| Sterling/Chinese yuan | 8.85 | 8.94 | 9.04 | 8.82 |
| Sterling/Indian rupee | 97.1 | 92.7 | 101.0 | 93.9 |

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 2021 and 31 March 2020. Unrecognised and deferred gains and losses in respect of derivatives and financial instruments at 31 March 2021 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.

Part of the Group's net investments in these overseas subsidiaries are hedged by foreign currency denominated, secured bank loans, as detailed in note 22 Interest bearing 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 31 March 2021

29 Financial instruments continued

d) Foreign currency risk continued

Hedges of net investments in foreign operations continued

A summary of the Group's hedges of net investments in foreign operations is as follows:

| | 2021 | | | 2020 | | |
|------------------|------------------------------|-----------------|---------------------|------------------------------|-----------------|---------------------|
| | Loans and borrowings £000 | Carrying amount | | Loans and borrowings £000 | Carrying amount | |
| | | Assets £000 | Liabilities £000 | | Assets £000 | Liabilities £000 |
| US dollar | 9,671 | 40,082 | (14,909) | 8,511 | 43,631 | (15,145) |
| Euro | 4,187 | 2,325 | (1,010) | 6,654 | 2,268 | (1,040) |
| Other currencies | — | 30,782 | (7,782) | — | 32,599 | (8,707) |

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 £1.084 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.

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 2021, 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 £0.318 million (2020: £0.444 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 £0.7 million for the year ended 31 March 2021 (2020: £0.7 million decrease) which is detailed by currency in the following table:

| | 2021 £000 | 2020 £000 |
|--------------|--------------|--------------|
| US dollar | 384 | 291 |
| Euro | 43 | 76 |
| Czech koruna | 57 | 98 |
| Other | 229 | 228 |
| | 713 | 693 |

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.

30 Cash generated from operations

| | 2021 £000 | 2020 £000 |
|---|---------------|--------------|
| Profit/(loss) for the year | 7,412 | (11,409) |
| Adjustments for: | | |
| Pension scheme contributions net of admin costs settled by the Company | (2,179) | (1,551) |
| Pension scheme admin costs settled by the Scheme | 910 | — |
| Depreciation charge | 5,774 | 6,765 |
| Amortisation of intangible assets | 206 | 172 |
| Exceptional impairment of tangible assets, arising on rationalisation of business | — | 1,501 |
| Exceptional impairment of intangible assets, arising on rationalisation of business | — | 1,405 |
| Exceptional gain in respect of retirement benefits | (6,458) | — |
| (Profit)/loss on business disposal | (1,250) | 2,962 |
| Loss/(profit) on disposal of other plant and equipment | 10 | (307) |
| Loss on disposal of intangible non-current assets | 5 | — |
| Cash flow relating to provision for site closure costs | (23) | (310) |
| Share-based payment charge | 1 | 76 |
| Financial income | (42) | (104) |
| Financial expense | 2,701 | 2,690 |
| Taxation | 457 | 1,449 |
| Operating cash flow before changes in working capital | 7,524 | 3,339 |
| Changes in working capital | | |
| Decrease/(increase) in inventories | 768 | (653) |
| (Increase)/decrease in contract assets | (1,492) | 16,942 |
| (Increase)/decrease in trade and other receivables | (308) | 2,531 |
| Increase/(decrease) in trade and other payables | 864 | (367) |
| Increase in contract liabilities | 3,846 | 11 |
| Cash generated from operations | 11,202 | 21,803 |

31 Financial commitments

| | 2021 £000 | 2020 £000 |
|---|--------------|--------------|
| The Directors have authorised the following future capital expenditure which is contracted: | 3,572 | 297 |

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.

There have been no changes to related parties in the year ended 31 March 2021.

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 50 to 68.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 31 March 2021

32 Related parties continued

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.

During the current period, a revised schedule of contributions was agreed with the trustees of the Group pension scheme which determines that contributions of £0.225 million per month will be payable until 1 February 2021, increasing to £0.292 million per month from 1 February 2021 to incorporate both deficit recovery contributions and scheme expenses including PPF levy. An additional £0.750 million is also payable between 30 June 2021 and 30 September 2022 under this revised schedule of contributions.

Carclo incurred administration costs of £1.6 million during the period, including £0.5 million presented as exceptional costs, which has been charged to the consolidated income statement (2020: £1.027 million, of which £0.430 million were presented as exceptional). Of the administration costs £0.9 million was paid directly by the scheme. The total of deficit reduction contributions and administration costs paid during the period was £2.8 million (2020: £2.025 million).

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 Group and Company have the following investments in subsidiaries:

| Company | Registered office address | Principal place of business | Status | Class of shares held | 2021 % | 2020 % |
|---|--|-----------------------------|---------|----------------------|--------|--------|
| Acre Mills (UK) Limited | | UK | Dormant | Ordinary | 100 | 100 |
| Arthur Lee & Sons (Hot Rolling Mills) Limited | | UK | Dormant | Ordinary | 100 | 100 |
| Australian Card Clothing Limited | | UK | Dormant | Ordinary | 100 | 100 |
| Bruntons Aero Products Limited | | UK | Active | Ordinary | 100 | 100 |
| Bruntons (Musselburgh) Limited | | UK | Dormant | Ordinary | 100 | 100 |
| Brymill Stockholders Limited | | UK | Dormant | Ordinary | 100 | 100 |
| Carclo Diagnostic Solutions Limited | | UK | Dormant | Ordinary | 100 | 100 |
| Carclo Group Services Limited | | UK | Active | Ordinary | 100 | 100 |
| Carclo Holding Corporation | 190 Elgin Avenue, Grand Cayman, KY1-9005 | Cayman Islands | Active | Ordinary | 100 | 100 |
| Carclo Holding Limited | | UK | Dormant | Ordinary | 100 | 100 |
| Carclo Investments Limited | | UK | Dormant | Ordinary | 100 | 100 |
| Carclo Overseas Holdings Limited | | UK | Active | Ordinary | 100 | 100 |
| Carclo Technical Plastics Limited | | 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 | | UK | Dormant | Ordinary | 100 | 100 |
| Carclo Technical Plastics (Slough) Limited | | UK | Dormant | Ordinary | 100 | 100 |
| Carclo Zephyr Limited | | UK | Dormant | Ordinary | 100 | 100 |
| CIT Technology Limited | | UK | Active | Ordinary | 100 | 100 |
| Critchley, Sharp & Tetlow Limited | | UK | Dormant | Ordinary | 100 | 100 |
| Crowther & Gee Limited | | UK | Dormant | Ordinary | 100 | 100 |

| Company | Registered office address | Principal place of business | Status | Class of shares held | 2021 % | 2020 % |
|--|---|-----------------------------|---------|----------------------|--------|--------|
| CTP Davall Limited | ² | UK | Dormant | Ordinary | 100 | 100 |
| CTP Lichfield Limited | ¹ | UK | Dormant | Ordinary | 100 | 100 |
| Carclo Platt Nederland BV | Prof. dr. dorgelolaan 12, Netherlands 5613 AM, Eindhoven | | 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 |
| Shepley Investments Limited | ¹ | UK | Active | Ordinary | 100 | 100 |
| Smith Wires Limited | ¹ | UK | Dormant | Ordinary | 100 | 100 |
| Station Road (UK) 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 |

1. Registered office address is: PO Box 88, 27 Dewsbury Road, Ossett, West Yorkshire, WF5 9WS

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 2021

33 Group entities continued

Investments in subsidiaries continued

| Group | Registered office address | Principal place of business | Status | Class of shares held | 2021 % | 2020 % |
|--|--|-----------------------------|--------------------------------|------------------------|--------|--------|
| AA Electronics Design Singapore PTE. Limited | One Raffles Place, #10-62, Tower 2 | Singapore | Members' Voluntary Liquidation | Ordinary | 100 | 100 |
| 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 | | UK | Dormant | Ordinary | 100 | 100 |
| CTP Carrera Inc | 600 Depot St. Latrobe, PA. 15650 | USA | Active | Ordinary | 100 | 100 |
| CTP Finance NV | Pareraweg 45, Curacao | Curacao | Members' Voluntary Liquidation | Ordinary | 100 | 100 |
| 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 |
| Finespark (Singapore) PTE Limited | One Raffles Place, #10-62, Tower 2 | Singapore | Members' Voluntary Liquidation | 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 | Active | A1 ordinary | 60 | 60 |
| Rumbold Investments Limited | | ¹ UK | Dormant | Ordinary | 100 | 100 |

| Group | Registered office address | Principal place of business | Status | Class of shares held | 2021 % | 2020 % |
|--|---------------------------|-----------------------------|---------|----------------------|--------|--------|
| 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 |
| 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: PO Box 88, 27 Dewsbury Road, Ossett, West Yorkshire, WF5 9WS

2. Registered office address is: C/O Bruntons Aero Products, Units 1-3, Block 1, Inveresk, Industrial Estate, Musselburgh, East Lothian, EH21 7PA

34 Post balance sheet events

On 4 May 2021, a further £0.2 million was received by HSBC from the Administrators of Wipac Ltd and has been applied as a repayment against the Group's term loan. At 31 March 2021 no asset has been recognised for this nor for further potential post balance sheet proceeds which would also be used to repay the Group's term loan. Management's best estimate of the contingent asset at 31 March 2021 in respect of these remaining potential proceeds is £0.35 million; the receipt of the £0.2 million does not change this.

At 31 March 2021, the Group has recognised £2.1 million (\$2.9 million) in loans and borrows in respect to a Paycheck Protection Program loan, see note 11. The loan was received from Commercial Bank and Trust of Pennsylvania as a promissory note, underwritten by the US Government's Small Business Administration ("SBA"). On 5 May 2021, CTP USA received confirmation of forgiveness of the loan by the SBA, resulting in its conversion from a loan to a grant. The full amount will be recognised in the income statement in the year ending 31 March 2022.

COMPANY BALANCE SHEET

as at 31 March 2021

| | | 2021 | | 2020 | |
|--|-------|-----------|----------|-----------|----------|
| | Notes | £000 | £000 | £000 | £000 |
| Fixed assets | | | | | |
| Tangible assets | 37 | 67 | | 61 | |
| Intangible assets | 38 | 223 | | 198 | |
| Investments in subsidiary undertakings | 39 | 93,795 | | 93,795 | |
| | | | 94,085 | | 94,054 |
| Current assets | | | | | |
| Debtors – amounts falling due within one year | 40 | 69,099 | | 70,574 | |
| Debtors – amounts falling due after more than one year | 40 | 4,806 | | 4,815 | |
| Cash at bank and in hand | | 3,559 | | 9,238 | |
| | | 77,464 | | 84,627 | |
| Creditors – amounts falling due within one year | | | | | |
| Trade and other creditors | 41 | (145,611) | | (148,930) | |
| | | (145,611) | | (148,930) | |
| Net current liabilities | | | | | |
| | | | (68,147) | | (64,303) |
| Total assets less current liabilities | | | | | |
| | | | 25,938 | | 29,751 |
| Creditors – amounts falling due after more than one year | 42 | | (2,893) | | (28) |
| Net assets excluding pension liability | | | | | |
| | | | 23,045 | | 29,723 |
| Pension liability | 44 | | (37,275) | | (37,620) |
| Net liabilities | | | | | |
| | | | (14,230) | | (7,897) |
| Capital and reserves | | | | | |
| Called-up share capital | 27 | | 3,671 | | 3,671 |
| Share premium account | | | 7,359 | | 7,359 |
| Profit and loss account | | | (25,260) | | (18,927) |
| Shareholders' deficit | | | | | |
| | | | (14,230) | | (7,897) |

The Company reported a profit after tax for the year of £181,000 (2020: profit of £6,263,000).

These accounts were approved by the Board of Directors on 29 June 2021 and were signed on its behalf by:



Nick Sanders

Director

Registered Number 196249



Phil White

Director

COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2021

| | Share capital £000 | Share premium £000 | Profit and loss account £000 | Total equity £000 |
|---|-----------------------|-----------------------|---------------------------------|----------------------|
| Balance at 1 April 2019 | 3,671 | 7,359 | (33,020) | (21,990) |
| Profit for the year | — | — | 6,263 | 6,263 |
| Other comprehensive income | | | | |
| Remeasurement gains on defined benefit scheme | — | — | 7,805 | 7,805 |
| Taxation on items above | — | — | — | — |
| Total comprehensive income for the year | — | — | 14,068 | 14,068 |
| Transactions with owners recorded directly in equity | | | | |
| Share-based payments | — | — | 25 | 25 |
| Taxation on items recorded directly in equity | — | — | — | — |
| Balance at 31 March 2020 | 3,671 | 7,359 | (18,927) | (7,897) |
| Balance at 1 April 2020 | 3,671 | 7,359 | (18,927) | (7,897) |
| Profit for the year | — | — | 181 | 181 |
| Other comprehensive expense | | | | |
| Remeasurement losses on defined benefit scheme | — | — | (6,540) | (6,540) |
| Taxation on items above | — | — | — | — |
| Total comprehensive expense for the year | — | — | (6,359) | (6,359) |
| Transactions with owners recorded directly in equity | | | | |
| Share-based payments | — | — | 26 | 26 |
| Taxation on items recorded directly in equity | — | — | — | — |
| Balance at 31 March 2021 | 3,671 | 7,359 | (25,260) | (14,230) |

NOTES TO THE COMPANY

FINANCIAL STATEMENTS continued

for the year ended 31 March 2021

35 Basis of preparation for the Company

a) 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 2021 which have had a material impact on the Company.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union ("Adopted IFRSs"), 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 s408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account.

IFRS 1 grants certain exemptions from the full requirements of Adopted IFRSs in the transition period. The following exemptions have been taken in these financial statements:

- business combinations that took place prior to 1 April 2014 have not been restated.

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 and tangible 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-based 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.

Going concern

The financial statements are prepared on the going concern basis.

On 14 August 2020 Carclo plc concluded a restructuring with the Company's main creditors, being its bank, HSBC, and the pension scheme, to secure the continued support of those parties through to July 2023.

The debt facilities made available to the Group comprised a term loan of £34.5 million, of which £3.0 million will be amortised by 30 September 2022, and a £3.5 million revolving credit facility maturing on 31 July 2023. Repayments amounting to £1.6 million have been made in the period to 31 March 2021 (these are not part of the £3 million due to be amortised by 30 September 2022). In accordance with the agreement, as repayments are made, the term loan facility reduces first, meaning that, at 31 March 2021, the term loan facility available is £32.1 million (after exchange variances). £3.5 million remains available on the revolving credit facility.

A schedule of contributions has been agreed with the pension trustees through to September 2037.

The bank facilities are subject to four covenants to be tested on a quarterly basis:

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.

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 on 1 May each year up to and including 2023. In the year to 31 March 2021 the test was met by the payment of the agreed schedule of contributions.

In subsequent years, the test requires any shortfall of pension deficit recovery contributions when measured against PPF 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 businesses based on an EBITDA multiple for those businesses which is to be determined annually.

The Directors have reviewed cash flow and covenant forecasts to cover the twelve-month period from the date of signing these financial statements, taking into account the Group's available debt facilities and the terms of the arrangements with the bank and the pension scheme. These demonstrate that the Group has sufficient headroom in terms of liquidity and covenant testing through the forecast period.

The Directors have reviewed sensitivity testing based on a number of reasonably possible scenarios, taking into account the current view of impacts of the continuing COVID-19 pandemic on the Group and possible political uncertainty, including the impact of change in the US administration, Brexit and other possible overseas trading issues.

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 5% matched by a corresponding fall in cost of sales of the same amount, the loss of COVID-related sales from large customers, delays in the timing of commencement of significant medical projects, reduction in revenue from specific customers, minimum wage increases and exchange risk. These sensitivities attempt to incorporate the risks arising from national and regional impacts of the global pandemic from local lockdowns, impacts on manufacturing and supply chain and other potential increases to direct and indirect costs. The Group has the capacity to take mitigating actions to ensure that the Group remains financially viable, including further reducing operating expenditures as necessary.

On the basis of this forecast and sensitivity testing, the Board has determined that it is reasonable to assume that the Company will continue to operate within the facilities available to it and to adhere to the covenant tests to which it is subject throughout the twelve-month period from the date of signing the financial statements and as such it has adopted the going concern assumption in preparing the 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 in note 49.

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 2020. 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 2020:

- Amendments to References to Conceptual Framework in IFRS Standards (effective date 1 January 2020);
- Amendments to IFRS 3 Definition of a Business (effective date 1 January 2020);
- Amendments to IAS 1 and IAS 8: Definition of Material (effective date 1 January 2020); and
- IFRS 9 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures: Amendments arising from the Interest Rate Benchmark Reform – Phase 1 (effective 1 January 2020).

These standards have not had a material impact on the Company's financial statements.

b) 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 and liabilities for cash-settled share-based payments.

c) 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.

NOTES TO THE COMPANY

FINANCIAL STATEMENTS continued

for the year ended 31 March 2021

35 Basis of preparation for the Company continued

c) Leases continued

As a lessee continued

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.

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.

d) 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.

e) Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets.

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.

f) 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.

g) 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.

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.

h) 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.

i) 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.

j) 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 payments 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.

k) 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.

NOTES TO THE COMPANY

FINANCIAL STATEMENTS continued

for the year ended 31 March 2021

36 Personnel expenses

The average number of employees in the year was 20 (2020: 20).

37 Tangible fixed assets

| | Plant and equipment £000 |
|---|-----------------------------|
| Cost | |
| Balance at 31 March 2020 | 65 |
| Additions | 38 |
| Balance at 31 March 2021 | 103 |
| Depreciation and impairment losses | |
| Balance at 31 March 2020 | 4 |
| Depreciation charge | 32 |
| Balance at 31 March 2021 | 36 |
| Carrying amounts | |
| At 31 March 2020 | 61 |
| At 31 March 2021 | 67 |

38 Intangible fixed assets

| | Software £000 |
|---|------------------|
| Cost | |
| Balance at 31 March 2020 | 1,021 |
| Additions | 122 |
| Balance at 31 March 2021 | 1,143 |
| Amortisation and impairment losses | |
| Balance at 31 March 2020 | 823 |
| Amortisation charge | 97 |
| Balance at 31 March 2021 | 920 |
| Carrying amounts | |
| At 31 March 2020 | 198 |
| At 31 March 2021 | 223 |

39 Fixed asset investments

Shares in Group
undertakings
£000

Cost

| | |
|--------------------------|---------|
| Balance at 31 March 2020 | 150,117 |
|--------------------------|---------|

| | |
|---------------------------------|----------------|
| Balance at 31 March 2021 | 150,117 |
|---------------------------------|----------------|

Provisions

| | |
|--------------------------|--------|
| Balance at 31 March 2020 | 56,322 |
|--------------------------|--------|

| | |
|---------------------------------|---------------|
| Balance at 31 March 2021 | 56,322 |
|---------------------------------|---------------|

Net book value

| | |
|------------------|--------|
| At 31 March 2020 | 93,795 |
|------------------|--------|

| | |
|-------------------------|---------------|
| At 31 March 2021 | 93,795 |
|-------------------------|---------------|

In the prior year the Company disposed of its investment in its UK subsidiary Wipac Limited, when Administrators were appointed to that company on 20 December 2019. Disposal proceeds of £9.2 million were received in the form of cash paid to the Company by its principal bank following interim dividends being paid from the Administrators of Wipac Ltd and a further £3.5 million in consideration was received by the Group pension scheme from the Administrators of Wipac Ltd, which reduced the Company's net pension deficit accordingly. These generated a profit on disposal of £12.7 million.

In the current year a further £1.25 million in consideration was received which was used to further reduce the Company's revolving credit facility borrowings owed to its principal bank. In addition, a further £0.20 million consideration was received in May 2021.

Value-in-use models were used to assess the recoverable amount of investments in the material trading subsidiaries. The key assumptions in these models were cash flow projections covering a three-year period and discount rates. Sufficient headroom between recoverable amount and net book value 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.

40 Debtors

| | 2021 £000 | 2020 £000 |
|--|---------------|--------------|
| Debtors – amounts falling due within one year: | | |
| Amounts owed by Group undertakings | 68,808 | 69,918 |
| Other debtors | 167 | 433 |
| Prepayments and accrued income | 124 | 223 |
| Deferred tax assets (see note 43) | — | — |
| | 69,099 | 70,574 |
| Debtors – amounts falling due after more than one year: | | |
| Deferred tax assets (see note 43) | 218 | — |
| Amounts owed by Group undertakings | 4,588 | 4,815 |
| | 4,806 | 4,815 |

Amounts owed by Group undertakings which fall due within one year are 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.

NOTES TO THE COMPANY

FINANCIAL STATEMENTS continued

for the year ended 31 March 2021

41 Trade and other creditors – amounts falling due within one year

| | 2021 £000 | 2020 £000 |
|------------------------------------|----------------|----------------|
| Bank overdrafts | 4,637 | 10,957 |
| Trade creditors | 371 | 379 |
| Taxation and social security | 50 | 53 |
| Accruals and deferred income | 1,184 | 731 |
| Amounts owed to Group undertakings | 105,442 | 106,354 |
| Bank loans | 33,927 | 30,456 |
| | 145,611 | 148,930 |

The Group has a net UK multi-currency overdraft facility with a £nil net limit and a £12.5 million gross limit agreed as part of the refinancing arrangement signed 14 August 2020. The overdrafts bear interest at between 2.0% and 4.5% above prevailing UK bank base rates. At 31 March 2021, Carclo plc's overdraft of £4.6 million has been recognised within cash and cash deposits when consolidated.

Bank loans include £33.8 million (2020: £30.4 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.

As part of the debt restructuring which concluded on 14 August 2020, additional security was granted by the Company to the bank such that at 31 March 2021, the gross value of the Company's assets secured amounted to £171.5 million.

Bank loans presented in the comparative period were medium-term multi-currency revolving loan facilities totalling £30.0 million. At 31 March 2020 these facilities were drawn to the extent of £30.4 million, which was possible due to a foreign exchange allowance included in the facility, and incurred interest at the rate of between 1.10% and 3.75% above the relevant currency base rate. As a result of movements in foreign exchange rates between 31 March 2020 and 18 August 2020 (when repayment was made) the final balance repaid to the bank was £30.1 million.

Amounts owed to Group undertakings which fall due within one year are non-interest bearing and repayable on demand.

42 Creditors – amounts falling due after more than one year

| | 2021 £000 | 2020 £000 |
|------------------------------------|--------------|--------------|
| Amounts owed to Group undertakings | 2,881 | — |
| Lease liabilities | 12 | 28 |
| | 2,893 | 28 |

43 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

| | Assets | | Liabilities | | Net | |
|--|--------------|--------------|--------------|--------------|--------------|--------------|
| | 2021 £000 | 2020 £000 | 2021 £000 | 2020 £000 | 2021 £000 | 2020 £000 |
| Other | 218 | — | — | — | 218 | — |
| Deferred tax assets/(liabilities) | 218 | — | — | — | 218 | — |

Deferred tax assets have not been recognised in respect of the following items:

| | 2021 £000 | 2020 £000 |
|--------------------------|---------------|---------------|
| Tax losses – trading | 4,090 | 2,058 |
| Tax losses – capital | 35 | 253 |
| Tax losses – non-trading | 353 | 151 |
| Employee benefits | 7,086 | 7,674 |
| Tangible fixed assets | 76 | 99 |
| Other | 57 | 4 |
| | 11,697 | 10,239 |

Deferred tax assets have not been recognised on the balance sheet to the extent that the underlying timing differences are not expected to reverse in the foreseeable future. The nature of the tax regimes in certain of the 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. Capital losses will be recognised at the point when a transaction gives rise to an offsetable capital gain; this was not the case at 31 March 2021. Similarly, non-trading losses will only be utilised against future non-trading profits; no such non-trading profits are foreseen at 31 March 2021. Trading losses will only be utilised against future trading profits; no such taxable trading profits are foreseen at 31 March 2021.

The tax losses at 31 March 2021 are available to carry forward without time restriction.

Movement in deferred tax during the year:

| | Balance as at 1 Apr 20 £000 | Recognised in income £000 | Recognised in equity £000 | Balance as at 31 Mar 21 £000 |
|-------|--------------------------------------|---------------------------------|---------------------------------|---------------------------------------|
| Other | — | 218 | — | 218 |
| | — | 218 | — | 218 |

Movement in deferred tax during the prior year:

| | Balance as at 1 Apr 19 £000 | Recognised in income £000 | Recognised in equity £000 | Balance as at 31 Mar 20 £000 |
|-------|--------------------------------------|---------------------------------|---------------------------------|---------------------------------------|
| Other | — | — | — | — |
| | — | — | — | — |

44 Pension liability

The Group operates a defined benefit UK pension scheme which provides pensions based on service and final pay.

The Company is 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. On 14 August 2020, additional security was granted by the Company to the Scheme trustees such that at 31 March 2021, the gross value of the Company's assets secured amounted to £171.5 million.

45 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 2021 the plan held 3,077 shares (2020: 3,077 shares). The original cost of these shares was £0.003 million (2020: £0.003 million). The cost of the shares has been charged against the profit and loss account.

46 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 2021 was £0.5 million (2020: £nil).

There are contingent liabilities arising in the ordinary course of business, in respect of litigation, which the Directors believe will not have a significant effect on the financial position of the Company or Group.

47 Profit and loss account

The profit after tax for the year dealt with in the accounts of the Company amounts to £0.181 million (2020: profit of £6.263 million) which, after dividends of £nil (2020: £nil), gives a retained profit for the year of £0.181 million (2020: retained profit of £6.263 million).

NOTES TO THE COMPANY

FINANCIAL STATEMENTS continued

for the year ended 31 March 2021

48 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 £0.334 million and interest receivable from Group companies during the period was £0.229 million;
- royalties were received from Group companies during the period totalling £1.2 million; and
- management fee income was received from Group companies during the period totalling £1.321 million.

During the current period the Company received £1.25 million from its bank 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.

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 62 to 64 and on page 68.

49 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

Note 35 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 Company to be able to continue to operate within its available facilities and in accordance with its covenants for the 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.

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 2021 amounts to £37.3 million (2020: £37.6 million).

Key sources of estimation uncertainty

The value of defined benefit pension plan liabilities 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 Company's comprehensive income. The Company exercises its judgement in determining the assumptions to be adopted, after discussion with a qualified actuary. Details of the key actuarial assumptions used and the sensitivity of these assumptions are included in note 24.

A Bridging Pension Option ("BPO") was introduced in the year to 31 March 2021 with rule change and member announcement creating a legal and constructive obligation and thus constituting a plan amendment. Having taken actuarial advice, management has exercised judgement that 40% of members will take the BPO. This estimate impacts on the past service credit recognised as an exceptional item in the income statement.

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 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.

Recognition of deferred tax assets

Note 43 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, £0.218 million deferred tax assets have been recognised at the period end.

FIVE YEAR SUMMARY

| | 2021 £000 | 2020 £000 | 2019 ¹ £000 | 2018 ¹ £000 | 2017 ^{1,2} £000 |
|--|---------------|---------------|---------------------------|---------------------------|-----------------------------|
| Group total: | | | | | |
| Revenue | 107,564 | 146,288 | 144,851 | 146,214 | 138,282 |
| Underlying operating profit | 4,840 | 4,365 | 1,315 | 10,811 | 12,498 |
| Exceptional items | 4,438 | (8,779) | (13,908) | (904) | (541) |
| Operating profit/(loss) | 9,278 | (4,414) | (12,593) | 9,907 | 11,957 |
| Net financing charge | (2,659) | (2,585) | (2,061) | (1,740) | (1,479) |
| Profit/(loss) before tax | 6,619 | (6,999) | (14,654) | 8,167 | 10,478 |
| Income tax (expense)/credit | (457) | (1,449) | (3,978) | 325 | (2,496) |
| Profit/(loss) after tax but before loss on disposal of discontinued operations | 6,162 | (8,448) | (18,632) | 8,492 | 7,982 |
| Underlying operating profit | 4,840 | 4,365 | 1,315 | 10,811 | 12,498 |
| Add back: Amortisation of intangible assets | 206 | 172 | 279 | 281 | 149 |
| Underlying earnings before interest, tax and amortisation ("EBITA") | 5,046 | 4,537 | 1,594 | 11,092 | 12,647 |
| Add back: Depreciation of property, plant and equipment | 5,774 | 6,765 | 5,260 | 4,732 | 4,535 |
| Underlying earnings before interest, tax, depreciation and amortisation ("EBITDA") | 10,820 | 11,302 | 6,854 | 15,824 | 17,182 |
| Continuing operations: | | | | | |
| Revenue | 107,564 | 110,506 | 105,338 | 104,681 | 103,236 |
| Underlying operating profit | 4,840 | 7,313 | 6,390 | 6,158 | 8,152 |
| Exceptional items | 4,490 | (5,470) | (4,507) | (904) | (541) |
| Operating profit | 9,330 | 1,843 | 1,883 | 5,254 | 7,611 |
| Net financing charge | (2,659) | (2,388) | (1,891) | (1,749) | (1,580) |
| Profit/(loss) before tax | 6,671 | (545) | (8) | 3,505 | 6,031 |
| Underlying operating profit from continuing operations | 4,840 | 7,313 | 6,390 | 6,158 | 8,152 |
| Add back: Amortisation of intangible assets from continuing operations | 206 | 172 | 176 | 170 | 108 |
| Underlying earnings before interest, tax and amortisation ("EBITA") from continuing operations | 5,046 | 7,485 | 6,566 | 6,328 | 8,260 |
| Add back: Depreciation of property, plant and equipment from continuing operations | 5,774 | 5,951 | 4,344 | 3,937 | 3,871 |
| Underlying earnings before interest, tax, depreciation and amortisation ("EBITDA") from continuing operations | 10,820 | 13,436 | 10,910 | 10,265 | 12,131 |

FIVE YEAR SUMMARY continued

| | 2021 £000 | 2020 £000 | 2019 ¹ £000 | 2018 ¹ £000 | 2017 ^{1,2} £000 |
|--|-----------------|--------------|---------------------------|---------------------------|-----------------------------|
| Underlying operating profit margin | 4.5% | 3.0% | 0.9% | 7.4% | 9.0% |
| Underlying operating profit margin from continuing operations | 4.5% | 6.6% | 6.1% | 5.9% | 7.9% |
| Return on sales (underlying EBITA margin) | 4.7% | 3.1% | 1.1% | 7.6% | 9.1% |
| Return on sales (underlying EBITA margin) from continuing operations | 4.7% | 6.8% | 6.2% | 6.0% | 8.0% |
| Effective tax rate | 5.8% | (14.6)% | (27.2)% | (4.1)% | 23.7% |
| Underlying effective tax rate | 21.0% | 27.8% | 19.2% | 20.6% | 21.6% |
| Earnings/(loss) per share ³ | 10.1p | (15.5)p | (25.4)p | 11.6p | 11.5p |
| Underlying earnings/(loss) per share ⁴ | 2.4p | 0.4p | (2.7)p | 9.8p | 12.1p |
| Net debt | (27,596) | (27,357) | (38,481) | (31,476) | (26,025) |
| Capital employed (equity + net debt) | 35,507 | 36,088 | 50,748 | 83,495 | 70,288 |
| Average capital employed (equity + net debt) | 35,798 | 43,418 | 67,122 | 63,730 | 62,984 |
| Return on capital employed (including discontinued operations) | 13.5% | 10.1% | 2.00% | 14.2% | 19.8% |
| Capital expenditure as a multiple of depreciation | 1.8x | 1.5x | 1.5x | 2.0x | 1.8x |
| Average number of employees in year | 1,048 | 1,475 | 1,501 | 1,442 | 1,418 |

1. The comparative information for 2017 – 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 comparative period, as detailed in note 4.
2. The comparative information for 2017 was revised to incorporate the adjustments arising from the initial accounting for the acquisition of PTD on 13 October 2016.
3. Earnings/(loss) per share is calculated based on profit after tax, attributable to equity holders of the parent company including discontinued operations and is after charging exceptional items.
4. 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 charging exceptional items.

INFORMATION FOR SHAREHOLDERS

(a) Reconciliation of non-GAAP financial measures

| | Notes | 2021 £000 | 2020 £000 |
|--|-------|-----------------|--------------|
| Profit/(loss) for the period | | 7,412 | (11,409) |
| Add back: (profit)/loss on discontinued operations, net of tax | 4 | (1,198) | 9,509 |
| Statutory profit/(loss) after tax from continuing operations | | 6,214 | (1,900) |
| Add back: Income tax expense from continuing operations | 3, 13 | 457 | 1,355 |
| Profit/(loss) before tax from continuing operations | | 6,671 | (545) |
| Add back: Net financing charge from continuing operations | 3, 12 | 2,659 | 2,388 |
| Operating profit from continuing operations | | 9,330 | 1,843 |
| Add back: Exceptional items from continuing operations | 10 | (4,490) | 5,470 |
| Underlying operating profit from continuing operations | | 4,840 | 7,313 |
| Add back: Amortisation of intangible assets from continuing operations | 16 | 206 | 172 |
| Underlying earnings before interest, tax and amortisation ("EBITA") from continuing operations | | 5,046 | 7,485 |
| Add back: Depreciation of property, plant and equipment from continuing operations | 17 | 5,774 | 5,951 |
| Underlying earnings before interest, tax, depreciation and amortisation ("EBITDA") from continuing operations | | 10,820 | 13,436 |
| Profit/(loss) before tax from continuing operations | | 6,671 | (545) |
| Add back: Exceptional items from continuing operations | 10 | (4,490) | 5,470 |
| Underlying profit before tax from continuing operations | | 2,181 | 4,925 |
| Income tax expense from continuing operations | 3, 13 | 457 | 1,355 |
| Add back: Exceptional tax expense from continuing operations | 13 | — | 13 |
| Group underlying tax expense from continuing operations | | 457 | 1,368 |
| Group statutory effective tax rate from continuing operations | | 6.9% | (248.6)% |
| Group underlying effective tax rate from continuing operations | | 21.0% | 27.8% |
| Cash at bank and in hand | 21 | 20,122 | 19,309 |
| Loans and borrowings – current | 22 | (9,721) | (42,804) |
| Loans and borrowings – non-current | 22 | (37,997) | (3,862) |
| Net debt | | (27,596) | (27,357) |
| Add back: Lease liabilities | | 7,055 | 5,250 |
| Net debt excluding lease liabilities | | (20,541) | (22,107) |
| Information on consolidated statement of cash flows | | | |
| Net cash from operating activities | | 8,397 | 19,302 |
| Less: net cash used in/(from) operating activities from discontinued operations | 4 | 52 | (12,353) |
| Net cash from operating activities from continuing operations | | 8,449 | 6,949 |
| Net cash used in investing activities | | (6,006) | (721) |
| Less: net cash from investing activities from discontinued operations | 4 | (1,250) | (2,700) |
| Net cash used in investing activities from continuing operations | | (7,256) | (3,421) |
| Net cash from/(used in) financing activities | | 5,050 | (3,131) |
| Less: net cash used in financing activities from discontinued operations | 4 | — | 1,721 |
| Net cash from financing activities from/(used in) continuing operations | | 5,050 | (1,410) |

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 | 96p |
| 2009 | 48.5p | 150.5p |
| 2010 | 133.5p | 241.5p |
| 2011 | 239p | 349p |
| 2012 | 287.5p | 503p |
| 2013 | 257p | 501p |
| 2014 | 85.25p | 292.5p |
| 2015 | 87p | 169.75p |
| 2016 | 106.75p | 169p |
| 2017 | 120p | 180p |
| 2018 | 77.25p | 127.5p |
| 2019 | 10.3p | 81.5p |
| 2020 | 3.75p | 23p |
| 2021 | 16p | 68.75p |

(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)121 415 7047. Lines are open between 8.30am to 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

Compound annual growth rate ("CAGR")

The geometric progression ratio that provides a constant rate of return over a time period

Constant currency

Retranslated at the prior year's average exchange rate. Included to explain the effect of changing exchange rates during volatile times to assist the reader's understanding

Group capital expenditure

Fixed asset additions

Net bank interest

Interest receivable on cash at bank less interest payable on bank loans and overdrafts. Reported in this manner due to the global nature of the Group and its banking agreements

Net debt

Cash and cash deposits less 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

Operational gearing

Ratio of fixed overheads to sales

Underlying

Adjusted to exclude all exceptional items

Underlying EBITDA

Profit before interest, tax, depreciation and amortisation adjusted to exclude all exceptional items

Underlying earnings per share

Earnings per share adjusted to exclude all exceptional items

Underlying operating profit

Operating profit adjusted to exclude all exceptional items

Underlying profit before tax

Profit before tax adjusted to exclude all exceptional items

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FINANCIAL CALENDAR

| | |
|--|------------------|
| Annual General Meeting | 2 September 2021 |
| Interim results for half year ending 30 September 2021 | November 2021 |
| Preliminary results for year ending 31 March 2022 | June 2022 |
| Annual report for year ending 31 March 2022 | mailed July 2022 |
| Annual General Meeting | September 2022 |



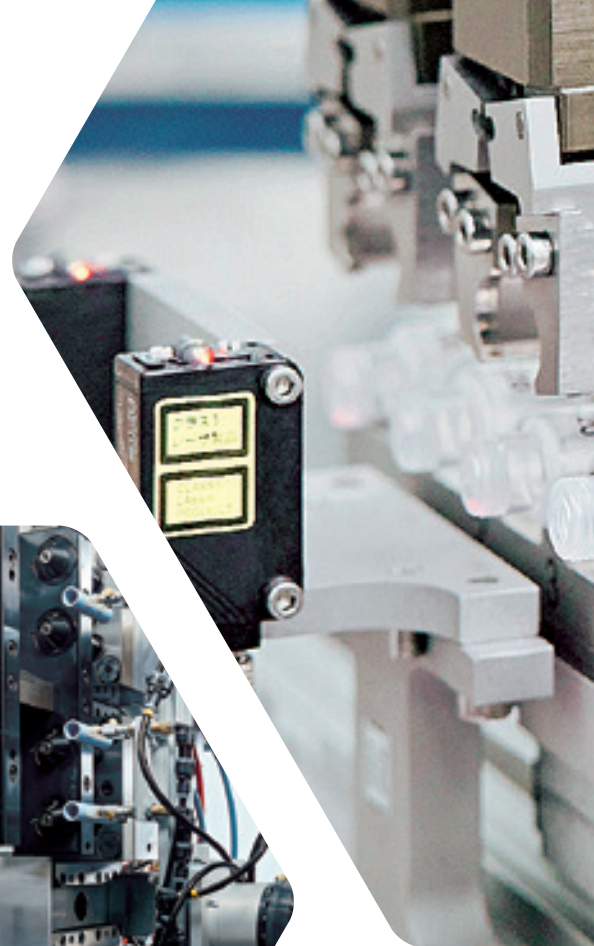
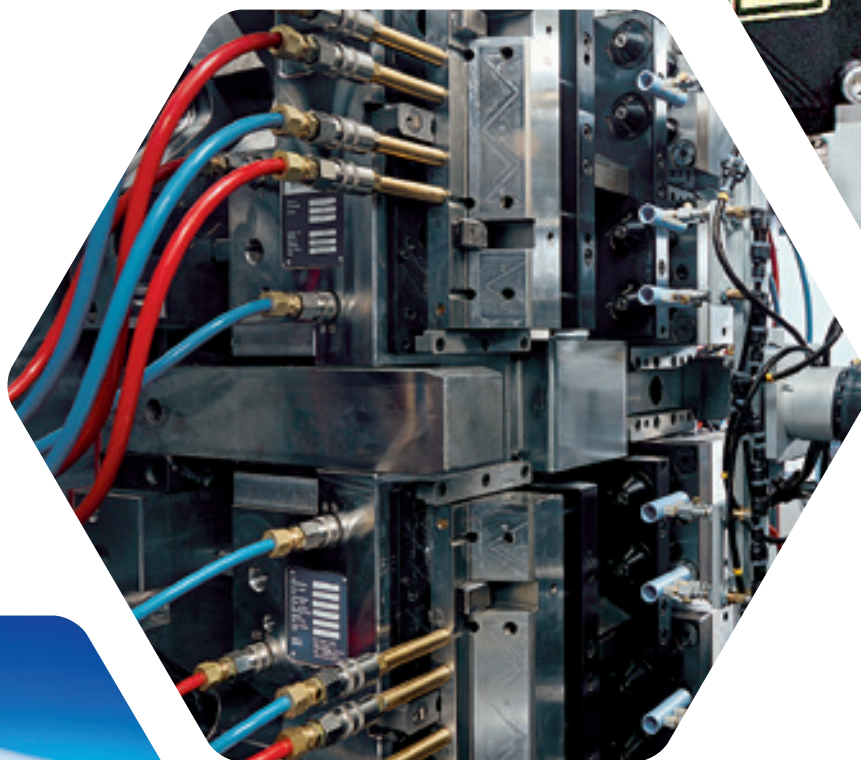
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