Global Packaging Solutions

Annual Report and Accounts 2016

MOLINS PLC

Highlights

- Increase in order intake of 20% and significantly higher order book at start of 2017
- Sales of £80.1m (2015: £87.0m)
- Underlying profit before tax of £0.9m (2015: £3.8m) Statutory loss before tax of £0.8m (2015: £2.0m profit)
- Underlying earnings per share of 3.7p (2015: 15.1p) Statutory loss per share of 3.3p (2015: 20.9p)
- Operating cash inflow of £6.2m (2015: £3.6m), leading to net cash balance of £0.8m (2015: £3.2m net debt)

Sales

£80.1m

(2015: £87.0m)[1]

Underlying profit before tax[2]

£0.9m

(2015: £3.8m)

Underlying earnings per share[2]

3.7p

(2015: 15.1p)

Notes
[1] From continuing operations.
[2] Adjusted to exclude non-underlying items as disclosed in note 5 to the financial statements.

Find out more online
www.molins.com

Our business

The Group serves its customers through its wide geographic spread of sales, service and manufacturing locations.

We support our international customer base through shared resources and infrastructure.

Our two divisions

Packaging Machinery

Langen is a designer and manufacturer of cartoning machinery, case packers, end-of-line and robotic packaging solutions, as well as a provider of complete turnkey projects involving design and integration of packaging systems.

Molins Technologies is a specialist engineering business, developing innovative technology and associated production and packaging machinery.

Sales
£41.5m

Employees
288

Operating profit
£0.7m
(before reorganisation costs)

Group sales
52%

Instrumentation & Tobacco Machinery

The division comprises Cerulean, the Group's quality control, testing and analytical instrumentation business and Molins Tobacco Machinery, which designs, manufactures and services secondary tobacco processing machinery.

Cerulean develops, assembles, sells and maintains process and quality instruments for the tobacco and FMCG sectors.

Sales
£38.6m

Employees
354

Operating profit
£0.4m
(before reorganisation costs)

Group sales
48%

Molins worldwide

The Group has an extensive international customer base and sells goods and services into a majority of countries across the world.

We are based in key strategic locations, supported by sales and service operations in most geographic regions and a network of experienced and industry relevant agents and distributors.

Our global services

Americas

Established for more than 50 years in the region, the Group operates from its facilities in Brazil, the USA and Ontario, Canada.

Sales (by location of customer)

£29.5m

Europe, Middle East & Africa

The Group supports both its multinational and regional customers from its businesses in the UK, Netherlands and Czech Republic; together with extensive sales, engineering and field support services deployed across the region, including in Russia and Egypt.

Sales (by location of customer)

£30.2m

Asia Pacific

The Group supports both divisions in the region from its principal base in Singapore. The Group is further strengthened through its offices in China, India and Thailand, as well as through its network of field service engineers and agents across Asia Pacific.

Sales (by location of customer)

£20.4m

Chairman's introduction

Phil Moorhouse
Chairman

2016 has been a year of change within the Company. A full strategic review has been undertaken by our new Chief Executive, Tony Steels, the output from which is discussed on pages 4 to 11.

On pages 16 to 18 I discuss corporate governance and the Board's activities during the year.

Summary of results

Performance was impacted as the Company started the year with a low order book and, despite the order prospects through the first half of the year remaining strong, conversion of these prospects into orders was delayed, resulting in lower sales and operational inefficiency. Positively, order intake in the last few months of the year was strong, leading to a good level of orders on hand at the beginning of 2017. Good cash flow in the year, which led to positive net cash at the year end, enables us to continue to invest in the business.

Board changes

I am very pleased to welcome Tony Steels to the Board as the Chief Executive. Tony joined us in June 2016 and brings with him extensive experience in the engineering sector through the senior management roles he has held at Cytec Industries, Umeco plc and Georg Fischer AG. Since his arrival, he has carried out a full strategic review of the business, the results of which reflect the opportunities for growing and developing the business.

In addition, I would also like to welcome Andrew Kitchingman who joined the Board as a non-executive director in May 2016. Andrew is a chartered accountant and is the chairman of the Audit Committee, as well as a member of the Remuneration Committee.

I would also like to take this opportunity to thank Dick Hunter, who left the Board in June 2016, for the many years of service he provided to the Company, including his 8 years as Chief Executive.

Dividend

Having considered the trading results for 2016, together with the opportunities for investment in the growth of the Company, the Board has decided that it is appropriate not to pay a final dividend. An interim dividend of 1.25p was paid in October 2016, totalling £0.2m. Future dividend payments and the development of a new dividend policy will be considered by the Board in the context of 2017 trading performance and when the Board believes it is prudent to do so.

Outlook

I consider that the prospects for the Company over the medium term are positive, as the sales and profit growth initiatives put in place by the leadership team take hold, and I look forward to reporting on the progress that will be made during 2017.

A slow start to the year had an adverse impact on operating profits, although order intake improved in the second half, providing a good platform for 2017

Tony Steels
Chief Executive

I am delighted to have joined Molins and to present my first report as Chief Executive.

On arrival in June I instigated a strategic review process, together with the senior leaders from around our group. The review process looked at all aspects of the business, focused in the first instance on self-help measures. The team's enthusiasm and high level of engagement has been commendable, as we have worked together to understand our market position, competitive environment, growth opportunities and ideas for efficiency improvements.

I have set three strategic priorities, termed Going for Growth, Make Service a Business and Operational Efficiencies, and these priorities developed into five work-streams – two focused on revenue growth, one focused on development of the Services business and two focused on operational efficiencies. Further information on the outcome of the strategic review is set out after this Operating review.

During my first few months I have visited all our global locations, met employees and key customers face to face, and have listened to their opinions and points of view. All of this has been of considerable help in supporting the strategic review process. The strategic plan is outlined on pages 6 to 9.

I would like to thank all Molins employees for their openness, support and warm welcome since my arrival.

Trading

Although trading was not strong in 2016, emanating from a low order book as the Company entered the year and delayed customer investment decisions during most of the year, actions were taken resulting in a number of positive highlights which create a platform for improved performance. Order intake improved in the fourth quarter, and increased by 20% overall compared with the previous year, leading to a significantly higher order book as we entered 2017. Operating cash flow was strong, at £6.2m, with working capital reducing by £4.8m. This strong operating cash flow resulted in the Group closing the year with net cash of £0.8m (2015: £3.2m net debt).

In 2016 the Group delivered sales of £80.1m (2015: £87.0m from continuing operations) and underlying profit before tax of £0.9m (2015: £3.8m). Strong cash flow enabled the Group to continue to invest in the business, both in capital items and in the development of new products.

Packaging Machinery

This division supplies high speed packaging solutions to the global FMCG industries, with a strong focus on Pharmaceutical, Healthcare, Nutrition and Beverage sectors.

Sales decreased by 19% to £41.5m (2015: £51.0m), with operating profit before non-underlying items reducing to £0.7m (2015: £3.9m). The division started the 2016 financial year with a lower order book than the previous year's strong position. The experience of the last few months of 2015 continued through a large part of 2016, with reasonably strong numbers of projects being discussed, but conversion to orders being delayed, such that sales were significantly reduced, and the operational efficiencies of the businesses suffered through under-utilisation. Towards the end of the year we took the opportunity to reduce the cost base of the division, but only in those areas which do not impact the commercial and service parts of the business, which we remain committed to improving. This action has helped position the business more effectively for 2017.

Encouragingly order intake in the last few months of the year started to improve, across all of the regions and most of the sectors that we serve. Overall order intake improved by 40%, or 28% on a currency adjusted basis, leading to a significantly improved opening order book as the division entered 2017. Order prospects remain positive, and the division received a valuable pharmaceutical related order in January 2017, although we remain cautious until we see a longer trend of sustained order intake.

Instrumentation & Tobacco Machinery

The division supplies machinery, instrumentation and service solutions into the nicotine delivery sector.

Sales in the year increased to £38.6m (2015: £36.0m), with operating profit of £0.4m (2015: £0.1m), before non-underlying items. The increase arose from the instrumentation business entering the year with a stronger order book than the year before, and converting that order book to sales. Overall order intake in the year was at broadly similar levels to the year before. Encouragingly, order intake for services, a key part of the growth driver for this division and the whole Group, increased in the year.

Demand within the tobacco machinery business remained low for new machinery. However, we remain encouraged by our introduction to the market of the Alto cigarette-making machine, and the Optima cigarette-packing machine. The Optima machine is nearing the end of its field trials, the results of which have been very positive and enables us to market the product knowing that it is a technically strong machine that is taking Molins back into the cigarette-packing market. The product portfolio of this part of the division is strong and largely complete, and the focus is now on selling these products.

We have continued to take steps to improve the efficiency of the division and have removed costs from some of the regional centres. Headcount reduced by a further 9% in the year, following a 20% reduction the year before. As with the Packaging Machinery division, the emphasis has been on improving the effectiveness of the business, whilst ensuring customer service is improved.

Outlook

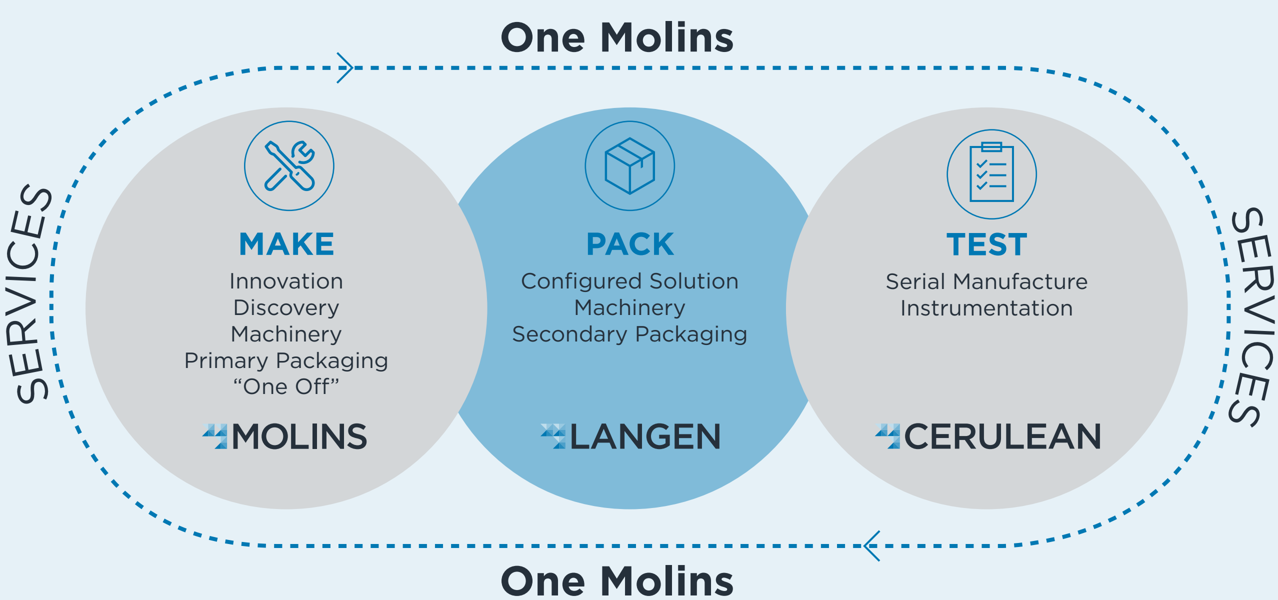
The Company entered 2017 with a stronger order book than a year before. A new global leadership structure was introduced at the start of 2017, together with a regional sales and service organisation, supported by global operations and shared services. We are confident that the implementation of our strategic priorities will position the Company, both commercially and in our product offering, such that we can take advantage of the opportunities available to us. In addition we are also continuing to improve the cost effectiveness of the business as the new strategy progressively takes hold.

Looking further ahead, prospects in the medium-term are positive, with our focus on the development of and investment in the growth markets, and improving the operational effectiveness of the business.

Tony Steels
Chief Executive
2 March 2017

Mission
- To be a global leader of high speed packaging solutions focused on attractive growth markets enhanced by a world class service offer programme to ensure maximum return on customer investments;
- Customer focused, responsive and flexible through operational excellence underpinned by a global competitive supply chain and internal activities optimised to maximise efficiency;
- Broaden application and customer scope by leveraging market leading technology and application know how.

Business model



The strategic intent

Molins will be a global leader of high speed packaging solutions, focused on growth markets and enhanced by a world class service organisation. Customer focused, responsive and flexible through operational excellence, underpinned by a competitive global supply chain and supported by a shared services platform. This is driven by three strategic priorities:

Strategy

	2017	Future plans
Going for Growth	• Commercial excellence programme • Regional sales structure • Cross-selling • Key account management	• Full solution selling • Product development roadmap • Key account development
Make Service a Business	• Create services business • Secure installed base • Develop product portfolio • Mobilise sales organisation	• Life cycle ROI proposition • Promote contractual agreements • Maximise revenues and cash generation
Operational Efficiency	• New organisation • Right size operations • Shared services • Supply chain optimisation	• Flexible and responsive organisation & supply chain • Common processes and controls • Optimised shared services • KPIs to support strategy

Market opportunity

Packaging machinery solutions is a very broad sector and our accessible markets have two contrasting dynamics. Pharmaceutical, Healthcare, Nutrition and Beverage are markets that are growing at around 5% per annum, driven by macroeconomic factors such as urbanisation, convenience and health awareness. The nicotine delivery market, although cash generative and relatively stable, is undergoing a shift as traditional products decline due to health awareness and government tax schemes. New nicotine delivery products are at the early stage of development with a large proliferation of solutions.

Molins has an excellent portfolio of global FMCG customers, together with large regional players in accessible and attractive growth markets. In addition, we have a large installed base, and with customers demanding ever increasing operating equipment efficiencies, we believe there exists a real opportunity to develop a contractual based service support model which would add incremental revenues to Molins.

Growth rates for packaged products vary significantly by region, depending on their phase of economic development. Asia, South America and Africa are each forecast to grow between 3 to 5% per annum in packaging, driven by urbanisation and convenience, whereas in Europe and North America, where populations are more stable, growth is forecast to be driven by premiumisation and health awareness. Molins has an embedded global footprint and is therefore well positioned to exploit the opportunities that market growth brings.

The extensive product range of process and packaging machinery solutions supports the whole Make, Pack, Test, Service cycle. This encompasses primary packaging, secondary packaging, instrumentation and servicing of equipment. Our Langen and Molins Technologies brands have solutions focused on the Pharmaceutical, Healthcare, Nutrition and Beverage sectors, whereas Molins Tobacco Machinery and Cerulean have focused on cigarette production, packaging and testing. Our business offers a concept feasibility service to customers, which is key in establishing a development partnership with the customer at the onset of a new innovation in product processing and packaging. This can be leveraged across our global key account customers to ensure Molins is in pole position to partner on new projects.

The innovative high speed packaging solutions available within the Company support the customer need for a full solution provider and the Company has the necessary platforms to support the increased market demand for data capture and product traceability throughout the production process.

Business model

The Company offers our customers a packaging solution customised to their requirements using a portfolio of proven modules augmented with a customer specific product package handling solution, which is supported by 15% of our employees being qualified engineers with in depth knowledge and know how.

The next phase is contract engineering, procurement and manufacturing, leading to assembly, test and then site delivery and customer acceptance. Common processes are all monitored and controlled by effective project management. Service support is then provided through the life of the product at the customers' sites.

The capital equipment market is cyclical by its nature with a high need for responsiveness and flexibility to adapt to customer demands and lead time needs, seizing the opportunities as they arise.

The opportunity exists to exploit synergies across the Group, utilising best practice across the businesses and a shared services resource in order to improve the operational efficiencies. This creates a model whereby we can increase utilisation with the ability to expand capacity with increased demand and reduce capacity in periods of lower demand.

This leads to the transition to a single enterprise business model – One Molins.

Key opportunities

The market and customer demands are evolving, with a clear need for full solutions to their packaging requirements supported by a comprehensive services proposition to ensure maximised return on their investments. Demand for data capture and traceability throughout the product life cycle is also an increasing trend. By utilising the impressive array of innovative engineering solutions throughout the Molins businesses, supported by a focused product development roadmap targeted on the attractive growth markets, we will be well positioned to deliver growth beyond industry forecasts.

The Group offers first of a kind innovative solutions, working with the customers' product development engineers and marketing functions on the next generation of innovative products. By partnering with these key global customers, Molins will be well positioned to support the customer from prototype to series production. This capability should be leveraged across our global sales team and into our global key accounts and prospects.

In particular, Service represents a key opportunity based on a substantial installed base. This will benefit from a detailed review of current customers to assess the potential additional revenue opportunities and a customer focused approach to transition to contractual agreements aimed at improved equipment utilisation and therefore customer return on investment.

Product innovation and development is key to growth in the large and attractive markets we operate in. Our current product development roadmap is being critically reviewed to ensure it is realigned to effectively support customer trends in the identified growth markets. Innovations to the current product range are planned to address short term needs as well as regional nuances, supported by a longer term roadmap to ensure we supplement the full solution objective in our target markets and address emerging customer demand for increased data capture to support maximised utilisation and product conformity.

A move to a regionally focused, single business entity model has been implemented. New sales and service regions have been created for the Americas, EMEA and Asia Pacific. This is supported by a global service business, operations and shared services function. The new senior leadership team comprises the head of each of the regions together with the global function leaders.

Customer responsiveness and reduced lead times are key competitive advantages and as such we need to continuously improve. By working on a global basis, operations and shared services will be better able to increase operational efficiencies, whilst simultaneously creating a flexible and responsive manufacturing base and supply chain to quickly adapt to changes in customer demand and investment cycles.

What were your first impressions of Molins?

The simple answer would be one of great and as yet unrealised potential. It was clear from day one that the businesses operate in some attractive growth markets, providing leading edge technological solutions to global FMCG customers. The people I met within the businesses during my initial tour around the sites were all very welcoming, open, engaged and talented. However these internal strengths were not translating into profitable growth for Molins, and the challenge was to understand the root causes of this disconnect. There are many common customers across our businesses and a range of complementary products which together could provide a broader solution to our customers' needs, and internally the systems and processes, whilst different, follow a very similar contract engineering, project management and service model. I believe there are many opportunities for greater coordination across the businesses, both commercially and operationally.

Why are the Pharmaceutical, Healthcare, Nutrition and Beverage markets attractive for the Company?

These markets have forecast macro growth drivers of more than 5% CAGR based on factors such as increased health awareness, urbanisation, premiumisation and convenience. We already have a very attractive portfolio of global key accounts and regional customers serving these markets. In addition we have an impressive heritage and portfolio of innovative engineered solutions and products which address these markets, which have delivered market leading performance for our customers over a sustained period.

I consider the business to be well positioned to exploit these markets, with our long established global organisation having key sales, service and manufacturing locations in North America, South America, Europe and Asia. We are encouraged by the forecast growth trends and are well positioned to exploit the opportunities these provide.

How does the Group intend to increase its market share?

As part of our 'One Molins' strategic growth initiative we will be mobilising our global sales resources to focus on these growth markets. Our customer proposition will be extended to offer a full application scope, encompassing our Make, Pack, Test, Service solutions to support their packaging needs. We will increase our collaboration with key customers on new and innovative solutions, seeking to be the go-to partner at the inception of new projects.

We have a product development roadmap which is focused on these growth markets, aimed at addressing our customers' need to evolve in a more dynamic environment, typified by lower volumes with increased variety and quick changeover of packaging. Compliance with product regulations, safety and quality is a key challenge for our customers, which our product development plans address.

We know that maximising the return on investment for our customers is a major driver in customer retention and increased numbers of equipment orders. In this respect our extensive range of Service products and global service team will be key to supporting our market share growth.

Future investments will be made to support the growth markets with products which complement our product portfolio and broaden our customer base in our target markets. These investments are expected to be principally funded through cash generation by the Group.

What initiatives are you planning to make to deliver this strategy?

The central pillar of our 'One Molins' strategy is to bring our four brands, across our two divisions, together as one global organisation.

Our strategic review identified three key initiatives to drive growth:

- Going for Growth – offering customers comprehensive "Make, Pack, Test, Service" solutions in our target markets.
- Make Service a Business – providing customers with a comprehensive portfolio of Service products to ensure they maximise their return on their capital investments, and provide Molins with an additional revenue stream.
- Operational Efficiency – operational excellence and flexibility of supply chain to increase responsiveness to investment cycles, as well as a group wide shared back-office function.

Each of the three key initiatives is supported by work streams and programmes of actions to ensure delivery of our plans.

Our senior leadership team has been working on the new strategy for a number of months and I am very encouraged by their expertise, enthusiasm and support for the journey ahead. The first visible change will be a new structure of the organisation, as we move to a global model with a leadership team comprising a head of each of the three sales and service regions, Americas, EMEA and Asia Pacific, supported by global functions of Service, Operations and Back-Office.

Our branding in the marketplace will be unified to build upon the strong and established platforms we have and further promote the Group's overall capabilities.

We will launch a "Commercial Excellence" programme to support the enhanced customer proposition, which will involve the development and training of our sales teams.

A Service organisation will be established, aimed at maximising the opportunities from our extensive installed base at customer sites and also for new equipment sales.

Already some necessary cost reduction measures have been taken within a number of the parts of the Group to ensure we are right-sized for the future.

What are the key challenges ahead?

Capital Equipment sales are susceptible to investment cycles, which is why we are prioritising Services as an additional growth platform to mitigate against periodic deferrals in customers' investment decisions. Our global presence and the overall macro growth drivers, whilst advantageous in many aspects, also necessitates that we participate in regions which are susceptible to political changes which can impact on investment cycles.

Where do you see Molins in 5 years' time?

I believe we have a tremendous opportunity to grow the Company's revenues and operating margins, based on attractive growth markets and an extensive portfolio of innovative solutions well matched to our customers' needs, supported by a global organisation of highly skilled, motivated employees.

This forms our clear vision to be a global leader of high speed packaging solutions, focused on attractive growth markets enhanced by a world class Services programme to ensure our customers obtain maximum return on their investments.

We intend to gain market share and enhance customer intimacy in our target markets, benefiting from greater consistency in branding, cross-selling and a broader, deeper market coverage, delivering sustainable profitable growth and improved return on capital. Our ability to be responsive to our customers' needs and the dynamics of the market are critical to our success.

Our initial focus is to build scale organically, which will be supported in the future by investments in our capabilities and product innovation, and potentially through acquisitions that will enhance our customer proposition and market access.

The development of our people and harnessing their talents is critical in the journey that we are on, which is to target annual sales growth of in excess of 10% per annum and growth in operating margins to in excess of 10% over the medium-term.

The Group generated strong cash flow in the year, and, together with a significantly higher level of order intake which led to a stronger order book, this positions the Group well for 2017

David Cowen
Group Finance Director

Revenue and operating results

The trading performance of the Group is discussed in the Operating review. Group revenue in the year was £80.1m (2015: £87.0m from continuing operations). Sales in the Packaging Machinery division were £41.5m (2015: £51.0m) and underlying operating profit was £0.7m (2015: £3.9m). Instrumentation & Tobacco Machinery division sales were £38.6m (2015: £36.0m) and underlying operating profit was £0.4m (2015: £0.1m).

Non-underlying items

The net non-underlying operating charge was £1.8m (2015: £1.1m from continuing operations). This comprised £0.9m (2015: £0.9m) of administration costs relating to the Group's defined benefit pension schemes (see Pension schemes section) and reorganisation costs relating to the Packaging Machinery division of £0.8m (2015: £nil) and Instrumentation & Tobacco Machinery division of £0.1m (2015: £0.2m, net of a credit of £0.2m arising from the sale of surplus property). Financing income/expense on pension scheme balances (see Interest and taxation section) is also considered to be a non-underlying item, as is the loss from discontinued operations in 2015.

Non-underlying items merit separate presentation in the Consolidated income statement to allow better understanding of the Group's financial performance, by facilitating comparisons with prior periods and assessments of trends in financial performance.

Interest and taxation

Net financing expense was £0.1m (2015: £0.9m), which includes a net financing income of £0.1m (2015: £0.7m financing expense) on pension scheme balances. The tax charge on underlying profit before tax was £0.1m (2015: £0.9m), an underlying effective rate of 16% (2015: 24%). The total tax credit on the Group's profit before tax was £0.2m (2015: £0.3m charge).

Goodwill and intellectual property

Included within intangible assets in the Consolidated statement of financial position at 31 December 2016 is goodwill arising on consolidation of £7.8m, which represents the excess of the cost of acquisition of the Group's instrumentation business, Cerulean, over the Group's interest in the fair value of the identifiable assets and liabilities of that business at the date of its acquisition. Other intangibles comprise the intellectual property of a thermometry measurement equipment business. Goodwill and intellectual property are reviewed for impairment at least annually and no impairment in respect of either of these amounts was required.

Dividends

Having considered the trading results for 2016, together with the opportunities for investment in the growth of the Company, the Board has decided that it is appropriate not to pay a final dividend. An interim dividend of 1.25p was paid in October 2016, totalling £0.2m. Future dividend payments and the development of a new dividend policy will be considered by the Board in the context of 2017 trading performance and when the Board believes it is prudent to do so.

Cash, treasury and funding activities

Net cash at the end of the year was £0.8m (2015: £3.2m net debt). Net cash inflow from operating activities was £6.2m (2015: £3.6m), after a decrease in working capital of £4.8m (2015: £0.4m), reorganisation payments of £0.3m (2015: £0.4m), defined benefit pension payments of £2.0m (2015: £1.9m), net taxation payments of £0.2m (2015: £0.1m) and cash outflows in respect of discontinued operations of £0.2m (2015: £1.2m). Capital expenditure on property, plant and equipment, net of proceeds from the sale of property, plant and equipment, was £0.9m (2015: £0.9m) and capitalised product development expenditure was £1.2m (2015: £1.9m). In 2015, assets, including intellectual property, relating to an instrumentation product that is being commercialised by the Group were purchased for £0.2m. Net cash outflow in relation to the discontinued operations was £0.2m in the year (2015: £1.0m). Dividends of £0.5m (2015: £1.1m) were paid in the year.

There were no significant changes during the year in the financial risks, principally currency risks and interest rate movements, to which the business is exposed and the Group treasury policy has remained unchanged. The Group does not trade in financial instruments and enters into derivatives (mainly forward foreign exchange contracts) solely for the purpose of minimising currency exposures on sales or purchases in other than the functional currencies of its various operations.

The Group maintains multi-currency denominated bank facilities appropriate to its expected needs. These were renegotiated in 2017 and comprise £13.0m of secured, committed facilities with Lloyds Bank plc. These facilities, which include borrowing, and bonds, indemnities and guarantees lines, are committed until September 2018 and are subject to covenants covering leverage, interest cover, tangible net worth and capital expenditure. Short-term overdrafts and borrowings are utilised to meet local cash requirements and these are typically denominated in local currencies. Foreign currency borrowings are used to hedge investments in overseas subsidiaries where appropriate.

Pension schemes

The Group is responsible for defined benefit pension schemes in the UK and the USA, in which there are no active members. The Company is responsible for the payment of a statutory levy to the Pension Protection Fund. The quantum of this levy is dependent on a number of factors, including a specific method of calculating a pension deficit for this purpose and a credit assessment of the Company, the methodology for which is also specific for this purpose.

These schemes are accounted for in accordance with IAS 19 *Employee benefits*. The IAS 19 valuation of the UK scheme's assets and liabilities was undertaken as at 31 December 2016 and was based on the information used for the funding valuation work that is currently being carried out as at 30 June 2015, updated to reflect both conditions at the 2016 year end and the specific requirements of IAS 19. The smaller USA defined benefit schemes were valued as at 31 December 2016, using actuarial data as of 1 January 2016, updated for conditions existing at the year end. Under IAS 19 the Group has elected to recognise all actuarial gains and losses outside of the income statement.

The IAS 19 valuation of the UK scheme resulted in a net surplus at the end of the year of £4.6m (2015: £10.6m). The value of the scheme's assets at 31 December 2016 was £401.9m (2015: £346.9m) and the value of the scheme's liabilities was £397.3m (2015: £336.3m). The main cause of the increase in the valuation of the liabilities in the UK scheme was the decrease in the discount rate, reflecting lower interest rates at the year end compared with twelve months previously. The scheme's assets have benefited from strong returns in the year which has partially offset the increase in the scheme's obligations.

The accounting valuations of the USA pension schemes showed an aggregated net deficit of £6.8m (2015: £6.6m) with total assets of £17.1m (2015: £14.9m).

The UK scheme is subject to a formal triennial actuarial valuation as at 30 June 2015, which is expected to be completed in the next few months. The last completed scheme specific funding valuation of the Group's UK defined benefit scheme, which was carried out as at 30 June 2012, showed a funding level of 86% of liabilities, which represented a deficit of £53.0m. The solvency position of the scheme at that date, which reflects the scheme's position if it was wound up, showed a funding level of 56%. Valuations are extremely sensitive to a number of factors outside the control of the Group, including discount rates. The level of deficit funding is currently £1.8m per annum, increasing by 2.1% per annum with an estimated recovery period of 17 years from 30 June 2012. The deficit recovery plan will be reassessed as part of the 30 June 2015 actuarial valuation, which is expected to be completed in the first half of 2017.

The aggregate cost of administering the defined benefit schemes charged to operating profit was £0.9m (2015: £0.9m). As reported in note 24, net financing income in respect of the schemes was £0.1m (2015: £0.7m expense).

During the year the Company made payments to the UK defined benefit scheme of £1.8m (2015: £1.8m) in respect of the deficit recovery plan. Payments of £0.2m (2015: £0.1m) were made to the USA schemes in the year.

Equity

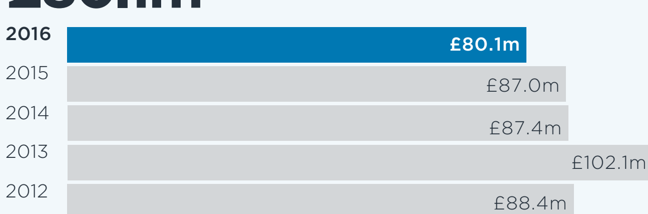
Group equity at 31 December 2016 was £35.4m (2015: £36.6m). The movement arises mainly from the net actuarial losses in respect of the Group's defined benefit pension schemes of £4.3m, a loss for the period of £0.6m, currency translation gains on foreign currency net investments of £3.7m and dividend payments of £0.5m, all figures net of tax where applicable.

David Cowen
Group Finance Director
2 March 2017

Key performance indicators

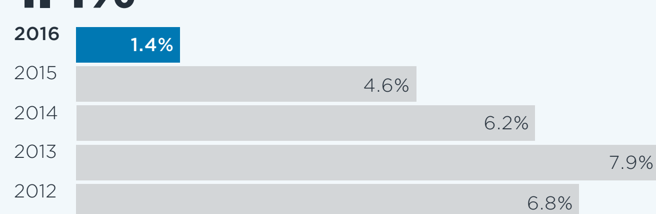
Sales (continuing operations)

£80.1m



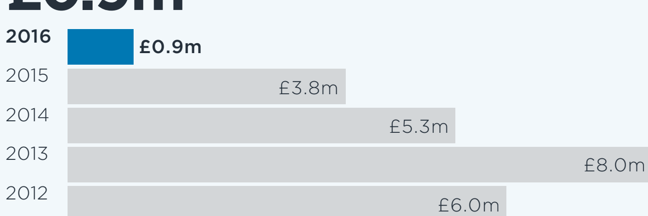
Underlying operating return on sales

1.4%



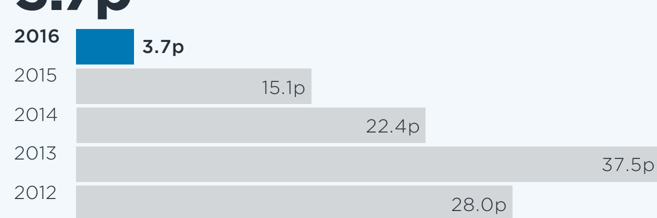
Underlying profit before tax

£0.9m



Underlying EPS

3.7p



The Board regularly considers the main risks that the Group faces and how to mitigate those risks. The principal risks and uncertainties to which the business is exposed are summarised as follows.

Risk	Mitigation
Economic and market cycles The Group is potentially affected by global and local economic cycles and changes in a number of industrial sectors, including the tobacco industry. Such potential changes include those arising as a consequence of governmental activities, such as regulation and taxation. Additionally, the impact of the UK leaving the EU on the Group is uncertain.	Customers, suppliers and Group operations are geographically diverse and the Group sells a range of products and services to a number of industries in all parts of the world. Within the tobacco industry customers include those that relate to the regulation and quality control of tobacco products, as well as those that relate directly to the manufacture of such products.
Loss of trading partners The Group faces the general risk of trading partners, including both customers and suppliers, ceasing to operate; the loss of any such partner could have an adverse effect on the Group's operating results and financial condition, including potentially affecting the viability of a subsidiary company. A number of customers operate in countries which may face a higher degree of political risk than others.	The Group has a diversified base of customers and the customer that accounts for the largest proportion of sales, excluding one-off projects, is routinely responsible for no more than 5% of total sales in any year. In certain years sales to a customer may be more than 5%, although the sales would typically be to a number of different geographic regions. The Group businesses regularly review their trading relationships with suppliers with the aim of ensuring that alternative sources of supply are available.
Large one-off projects The Group undertakes a number of large, one-off projects for its customers each year. Several risks follow from the nature of this type of business, including the potential for cost over-runs and delays in performing the contract, with a consequent impact on cash flows and profits. Also, the Group is prone to potentially large fluctuations in business levels, as demand can be volatile.	The Group utilises good project management practices, including regular technical and commercial reviews of its major projects. Resource capacity is regularly reviewed, alongside reviews of order prospects lists.
Loss of a key facility The Group operates a number of businesses around the world and the loss of any one of them would interrupt a revenue stream and could potentially have an adverse effect on the Group's operating results and financial condition.	Disaster recovery plans are in place for each business. IT infrastructures are designed to have minimal inter dependence across the Group, thereby not exposing a number of facilities to the failure of one central system.
Exchange rate movements The majority of the Group's trading is conducted outside of the UK and in currencies other than sterling. Consequently, its financial performance is affected by fluctuations in foreign exchange rates, particularly as a result of changes in the relative values of the US dollar, Canadian dollar, euro, Czech koruna, Brazilian real and sterling.	The Group has a wide supply base in different countries and monitors the relative values of currencies in making purchasing decisions. The Group enters into forward foreign exchange contracts to minimise currency exposures on sales and purchases in other than the functional currencies of its operations.

Risk	Mitigation
IT Security The Group holds sensitive data relating to its employees, customers and suppliers as well as intellectual property and financial data. Should security infringement occur the Group risks loss of customers, disruption of normal operations, fines and reputational damage.	The Group continually reviews the effectiveness of its IT security controls in consultation with external experts and invests in industry best practice security software. The security arrangements of the Group's IT assets prevent unauthorised access to core IT hardware. IT infrastructures are designed to have minimal inter dependence across the Group.
Availability of funding The Group has access from its principal UK bank to borrowing facilities of £13.0m, which are committed until September 2018, provided that the Group continues to meet the agreed covenants. In addition, these facilities provide the Group with access to other financial instruments for carrying out its activities, including bank guarantees and forward foreign exchange contracts. If a breach of agreed covenants was to occur and funding was withdrawn, it may result in the Group experiencing difficulty in financing its activities.	Reviews of actual and forecast trading performance are regularly undertaken and assessed against the bank covenants, thereby allowing mitigating actions to be put in place if there were concerns that covenants might be breached. Regular reviews are held with the principal UK bank so that they are informed of the Group's strategy and prospects and are able to comment as appropriate.
Liabilities of the Group sponsored defined benefit pension schemes The Group is responsible for the funding of a defined benefit pension scheme in the UK, which pays a levy to the Pension Protection Fund of an amount outside the control of the Group, as well as three smaller such schemes in the USA. Changes in the value of the liabilities of the pension schemes, which were valued in aggregate at £421.2m at 31 December 2016 in accordance with IAS 19, as a consequence of changes in interest rates and mortality rates, amongst others, and changes in the value of the assets of the pension schemes, which were valued in aggregate at £419.0m at 31 December 2016, are largely outside the control of the Group. The valuation of these schemes impact on the value of capital employed in the Group and the extent to which, as a matter of law, it has available to distributable profits. The Group has responsibility for the adequate funding of the pension schemes and is currently paying to the UK scheme £1.8m per annum in respect of deficit funding following an actuarial funding valuation as at 30 June 2012. The UK scheme is subject to a full actuarial funding valuation as at 30 June 2015 which is expected to be completed in the next few months and will help inform its funding requirements over the subsequent periods.	The Group and the pension schemes implement liability reduction strategies where such opportunities exist and the Group maintains regular dialogue with its pension advisors on such matters. Regular meetings are held with the trustee of the UK pension scheme, to input into their asset investment decisions and to apprise the trustee of the progress of the Group to help inform them in making decisions which may impact the scheme funding requirements. However, many factors which impact the valuations and funding requirements of the pension schemes are outside the control of the Group.
Litigation The Group from time to time may be subject to claims from third parties in relation to its current and past operations, which could result in legal costs and rulings against it that may have a material effect on the Group's operating results and financial condition.	The Group has a comprehensive risk management and review process which is aimed at minimising the risk of such claims arising as a consequence of its actions. Insurance policies are in place to cover some such incidences and third-party legal assistance is sought as required.

As Chairman, I am pleased to have the opportunity to outline the activities and responsibilities of the Board

Phil Moorhouse
Chairman

We are committed to excellence
Governance highlights of the year

We are committed to excellence in corporate governance and maintain clear policies and practices that promote good corporate governance, including:

- the Board of directors has adopted clear corporate governance policies;
- the Chairman and the independent member of the Board of directors meet regularly without the presence of management;
- we have a clear code of business conduct;
- the Group has a whistle-blowers hotline available to all employees, and the Molins Audit Committee has procedures in place for the anonymous submission of employee complaints on accounting, internal accounting controls, or auditing matters; and
- the Company's internal audit function maintains critical oversight over the key areas of its business and financial processes and controls, and reports directly to the Audit Committee.

Earlier in this document we have explained how the Group has performed in the year and how it is structured. In this report I explain how the Board goes about ensuring it performs its duties effectively.

The Board's activities

Since the Company's move to AIM in 2014, the Board has continued to operate the Company's business, including its reporting and governance, in substantially the same manner and with the same objectives as it had done before the move. Accordingly, even though the Company is not subject to the UK Corporate Governance Code (the Code), the directors consider that the Company adhered to the principles of the Code and those contained in the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008.

The Board met seven times during 2016 and it is responsible for:

- Group strategy, business planning, budgeting and risk management;
- monitoring performance against budget and other agreed objectives;
- setting the Group's values and standards, including policies on employment, health and safety, environment and ethics;
- relationships with shareholders and other major stakeholders;
- determining the financial and corporate structure of the Group (including financing and dividend policy);
- major investment and divestment decisions, and approving material contracts; and
- Group compliance with relevant laws and regulations.

Day to day management of the Company's businesses is delegated to the executive directors and in turn to senior members of the leadership team in accordance with a clear and comprehensive statement of delegated authorities. At each meeting the Board reviews comprehensive financial and trading information produced by the management team and considers the trends in the Company's businesses and their performance against strategic objectives and plans. It also regularly reviews the work of its formally constituted standing Committees as described below and compliance with the Group's policies and obligations.

This year has seen Tony Steels and Andrew Kitchingman join the Board as Chief Executive and as a non-executive director respectively. In addition there have been certain changes in the composition and structure of the Committees referred to below.

In furtherance of the principles of good corporate governance, the Board has appointed Audit, Remuneration and Nomination Committees, each with formal terms of reference, which can be read on the Company's website at www.molins.com. The current memberships of the Committees are shown on page 19. All members of the Board and its Committees attended all meetings held in 2016.

Reports on the activities of the Audit Committee and the Remuneration Committee are on pages 20 and 22 respectively. The Nomination Committee, which I chair, is responsible for formulating and reviewing proposals for the appointment of directors and making recommendations thereon to the Board. It met twice during 2016 and intends to meet at least once a year to review the structure, size, diversity and composition of the Board and its Committees (including the balance of skills, knowledge and experience and the need for succession planning or membership of the Board).

The directors attend seminars from time to time as appropriate to assist with training in their awareness of compliance issues facing boards of quoted companies. The directors have ensured they maintain awareness of current issues and skills development, through membership of professional associations where appropriate. Details of the service contracts of the executive directors are set out in the Remuneration report. The non-executive directors' terms of engagement are set out in their letters of appointment. In each case, compensation for loss of office of a non-executive director is specifically excluded by the letter of appointment.

Board performance evaluation

The Board carries out a formal review each year in respect of its performance over the previous year. The evaluation is informed by detailed questionnaires completed by each director.

The Board is responsible for the Group's system of internal controls and has established a framework of financial and other controls.

Relationships with shareholders

The Board recognises the importance of maintaining regular dialogue with institutional shareholders to ensure that the Group's strategy is communicated and any concerns can be addressed. In addition, all shareholders have the opportunity to attend the Annual General Meeting where the Group's operations can be discussed with the directors. The Chief Executive and Group Finance Director make themselves available for meetings with analysts and representatives of the major shareholders on the day of the announcement of the preliminary results and the half-year results or shortly thereafter and upon request at other times of the year, and they report accordingly to the Board on shareholders' views. Any shareholder wishing to meet with the directors should make contact with the Secretary. Mr Davies, Mr Kitchingman and I are also available to attend meetings with major shareholders thus enabling shareholders to draw our attention to any views that they consider need special emphasis. We can also be contacted through the Secretary.

Internal controls

The Board is responsible for the Group's system of internal controls and has established a framework of financial and other material controls that is periodically reviewed for its effectiveness. The Board has reviewed the effectiveness of the system of internal controls during the year ended 31 December 2016 and will review controls annually, having ensured that appropriate control mechanisms and review processes are in place.

The Board has taken and will continue to take appropriate measures to ensure that the chances of financial irregularities occurring are reduced as far as reasonably possible by improving the quality of information at all levels in the Group, fostering an open environment and ensuring that financial analysis is rigorously applied. Any system of internal control can, however, only provide reasonable, but not absolute, assurance against material misstatement or loss.

The major elements of the system of internal control are as follows:

- major commercial, strategic and financial risks are formally identified, quantified and assessed by each business during the annual budgeting exercise and presented to and discussed with executive directors, after which they are considered by the Board;
- there is a comprehensive system of planning, budgeting, reporting and monitoring of the Group's businesses. This includes monthly management reporting and monitoring of performance and forecasts. Monthly reviews are embedded in the internal control process and cover each principal business. Monthly reviews require each business to consider, among other things, business development, financial performance against budget and forecast, health and safety and capital expenditure proposals, as well as a review of longer-term business development and all other aspects of the business. They are attended by executive directors and other Group personnel as appropriate;
- there is an organisational structure with clearly defined lines of responsibility and delegation of authority;
- each business is required to comply with defined policies, financial controls and procedures and authorisation levels which are clearly communicated;
- a regular programme of internal control reviews and specific investigations is carried out by Group finance personnel. These are followed up during regular executive management visits. The internal control reviews include assessments of compliance with Group policies and procedures and findings are reported to the Audit Committee and Board as appropriate;
- there is a whistle-blower procedure of which all employees are made aware, to enable concerns to be raised either with line management or, if appropriate, confidentially outside line management;
- a formal risk management audit is regularly carried out by Group personnel and external risk management consultants, which covers physical damage, environmental and health and safety risks together with business continuity issues; and
- formal reports including recommendations are sent to each business for action and reported back to Group management. Progress reports are issued to the Board for review and monitoring.

Finally, I would like to take this opportunity to thank all Group employees for their continued hard work, commitment and their contribution to the performance of the Group during 2016.

Phil Moorhouse
Chairman
2 March 2017

Board of directors

Member of the Audit, Remuneration and Nomination Committees.

Phil Moorhouse FCCA
Chairman

Phil Moorhouse joined the Molins Board on 1 March 2011 as a non-executive director and was appointed Chairman of the Board on 10 April 2015. He is Chairman of the Nomination Committee. He is also non-executive Chairman of Newcastle Building Society and an independent non-executive director of The North of England P&I Association Limited. He was formerly Finance Director and Managing Director UK of Northgate plc.

Dr Tony Steels
Chief Executive

Tony Steels joined the Company and was appointed to the Board as Chief Executive on 6 June 2016. He previously held a number of senior UK and international management positions, most recently at Cytec Industries, Umeco plc and Georg Fischer AG.

David Cowen FCA
Group Finance Director

David Cowen joined the Molins Board as Group Finance Director on 8 February 1999 from Rolls-Royce and Bentley Motor Cars Ltd where he was Finance Director. He previously held senior financial positions with Vickers PLC.

John Davies
Non-Executive Director

John Davies joined the Molins Board on 27 January 2011 as a non-executive director and is Chairman of the Remuneration Committee. He is a non-executive director of Redde plc and he was formerly non-executive Chairman of Autologic Holdings plc, Managing Director of Lloyds TSB's Asset Finance division, Head of Consumer Finance for Standard Chartered Bank and Managing Director of United Dominions Trust, a subsidiary of Lloyds TSB Bank plc.

Andrew Kitchingman FCA
Non-Executive Director

Andrew Kitchingman joined the Molins Board on 11 May 2016 as a non-executive director and is Chairman of the Audit Committee. He is a non-executive director of Lon-Pro Holdings plc and of Incommunities Group Limited, and is also a director of The Cathedral Choir School Ripon Limited. Previously he held senior corporate finance positions with a number of firms, including KPMG, Hill Samuel, Albert E Sharp, Brewin Dolphin and WH Ireland.

In my capacity as Chairman of the Audit Committee, I report on the responsibilities of the Audit Committee and its activities during the year

Andrew Kitchingman
Chairman of the Audit Committee

I am pleased to have taken on the role of Chairman of the Audit Committee in June of 2016. With my background as a chartered accountant and my wealth of experience in corporate finance, the Board regards me as having the relevant experience to be able to perform my duties as the Committee's Chairman effectively.

The Committee's members are the non-executive directors, whose biographies are set out on page 19, all members of the Committee at the time of each meeting attended each of the four Committee meetings held in the year. The Chief Executive, Group Finance Director, Secretary, senior member of the internal audit function and representatives of the external auditors (when half-year accounts, year-end accounts or external audit plan proposals are to be considered) are invited to attend all or part of each meeting. Each of them has confidential access to me at other times as required.

The Audit Committee assists the Board in the discharge of its duties concerning the announcement of results, the Annual Report and Accounts and the maintenance of proper internal controls. It reviews the scope and planning, as well as the audit and the auditors' findings and considers Group accounting policies and the compliance of those policies with applicable legal and accounting standards.

The Audit Committee also considers the independence of the external auditors and has developed policies relating to the employment of former employees of the auditors and the engagement of the auditors, or advisors related to the auditors, on non-audit work. These policies, which have been adopted formally by the Board, require, inter alia, the Committee's consent to material engagements or any employment and appropriate confirmations from the auditors. The Committee considers annually how the internal audit function operates in the Group, including its terms of reference and whether this gives sufficient assurance that the business and controls of the Group are adequately reviewed. The Committee also approves the internal audit work plan each year. This function is part of the Group finance department and its senior member reports to the Committee at each meeting on its activities and has direct access to me as required at all times.

Relationship with the Auditors

During the year under review KPMG LLP provided tax advice to the Company and some of its principal subsidiaries. The Board has considered the effect on independence of the auditors and the objective criteria on which any decisions to appoint KPMG LLP should be made. It was concluded that in the circumstances their appointment as tax advisor was the most cost-effective means of securing appropriate advice without a serious risk of affecting the independence of the auditors. KPMG LLP have confirmed that they do not consider their independence to be affected.

The Board has developed policies to safeguard the independence of the auditors based upon:

- internal KPMG LLP processes to prevent information being shared between teams except where it is appropriate and a periodic rotation of senior audit staff in accordance with KPMG LLP internal policies;
- separate consideration of each category or major item of work, including the cost-effectiveness of any proposed work and the suitability of competing advisors;
- consideration of the total level of fees payable to KPMG LLP and its associated entities; and
- periodic rotation of the lead audit partner; this was last effected during 2013, when Peter Selvey was appointed Senior Statutory Auditor.

Auditors' appointment

The Committee evaluated and was satisfied with the work of the auditors, KPMG LLP, and therefore recommended to the Board that they should be re-appointed for the 2017 audit. A resolution for the re-appointment of KPMG LLP as auditors of the Company is to be proposed at the forthcoming Annual General Meeting to be held on 20 April 2017.

Activities of the Audit Committee during the year

A summary of the Committee's principal activities in 2016 is set out below.

Andrew Kitchingman
Chairman of the Audit Committee
2 March 2017

Month	Principal activities
February	Review of financial reporting, including material judgements and estimates, goodwill impairment review assumptions, going concern assumptions, draft Annual Report and Accounts 2015, governance reports, draft preliminary results announcement, representation letter to the external auditors and the audit report. Review of internal controls and risk management processes and environment. Consideration of the external auditors' activities, effectiveness, objectivity and independence, and consideration of whether to recommend the re-appointment of KPMG LLP as external auditors.
April	Approval of the internal audit work plan for the year. Update on the implementation of the business' financial performance improvement observations as recommended by the external auditors. Consideration of the effectiveness of the external audit process.
August	Review of financial reporting, including consideration of the going concern assumptions, the draft half-year announcement and the external auditors' review report of the half-year condensed set of financial statements. Review and approval of the external audit plan for 2016 financial reporting. Consideration and agreement of the Audit Committee checklist.
December	Review of financial controls and accounting policies. Review of internal controls and risk management processes and environment. Consideration of and approval of external audit fee quotation for the 2016 financial reporting.

On behalf of the Board I am pleased to present the Remuneration Committee's report for the year ended 31 December 2016

John Davies
Chairman of the Remuneration Committee

The report is presented in three sections; my introductory statement, the Remuneration report and the forward-looking Remuneration policy.

The Remuneration report, on pages 23 to 25, details the amounts earned by the directors in respect of the period to 31 December 2016 and is subject to an advisory shareholder vote. The Remuneration policy, on pages 25 to 29, sets out the policy which was approved by shareholders at the Annual General Meeting held on 24 April 2014 and which remains subject to that binding vote until no later than 24 April 2017. The Remuneration policy will be put to a binding vote at the Annual General Meeting on 20 April 2017, which if approved will then be effective for a period of up to a further three years from that date.

The Remuneration Committee, which consists of the non-executive directors, deals with all aspects of the remuneration of the executive directors and certain other senior managers. The Chief Executive, Group Finance Director and Secretary are invited to attend all or parts of each Committee meeting but are not in attendance when the subject matter covers topics pertaining to their remuneration. The Committee meets on a regular basis, usually three times a year and additionally if required. It met two times in 2016.

During the year, the Committee undertook a review of the Remuneration policy to satisfy itself that the policy still supports the strategic objectives of the Company. There have been no changes to the Remuneration policy in the year.

In reaching its decisions on policy and specific remuneration packages, incentive arrangements and targets, the Committee obtains professional advice, when necessary, from Willis Towers Watson on the salary, benefits and incentive arrangements for executive directors. It has also taken advice from Willis Towers Watson on pension arrangements (a separate team in Willis Towers Watson provides actuarial services to the trustee of the Molins UK Pension Fund).

Remuneration report

Directors' total remuneration

The remuneration of the executive directors for the years 2016 and 2015 is made up as follows:

Executive directors' remuneration as a single figure

2016	Salary £000	All taxable benefits[a] £000	Termination payments[b] £000	Short-term incentive scheme[c] £000	Deferred share plan[d] £000	Pension[e] £000	Total £000
D J Cowen	215	22	–	–	–	58	295
T Steels (appointed 6 June 2016)	130	9	–	46	–	10	195
R C Hunter (resigned 6 June 2016)	105	15	91	–	–	19	230

2015	Salary £000	All taxable benefits[a] £000	Termination payments[b] £000	Short-term incentive scheme[c] £000	Deferred share plan[d] £000	Pension[e] £000	Total £000
D J Cowen	215	20	–	–	–	58	293
R C Hunter	243	26	–	–	–	36	305

[a] Taxable benefits include:
Mr Cowen – car allowance payments, private medical cover, income replacement insurance and life assurance premiums;
Dr Steels – car allowance payments and income replacement insurance;
Mr Hunter – provision of a company car, private fuel, private medical cover, income replacement insurance and life assurance premiums.

[b] Mr Hunter resigned as a director of the Company on 6 June 2016 and as an employee on 7 July 2016. The termination payment represents pay in lieu of notice and compensation for loss of employment, and reflects the principle of mitigation.

[c] The performance criteria for the Short-term incentive scheme is described in the Remuneration policy on page 28.

[d] The performance criteria for the Deferred share plan is described in the Remuneration policy on page 29. No awards were made in the two year period to 31 December 2016.

[e] The values in respect of Mr Cowen and Mr Hunter are the amounts paid to each of them in lieu of membership of a pension scheme. The value in respect of Dr Steels is the amount contributed by the Company into the Molins Personal Pension Plan on his account.

The remuneration of the non-executive directors for the years 2016 and 2015 is made up as follows:

Non-executive directors' remuneration as a single figure

	2016			2015		
	Fees £000	All taxable benefits £000	Total £000	Fees £000	All taxable benefits £000	Total £000
J L Davies	50	–	50	50	–	50
P J Moorhouse – Chairman since 10 April 2015	75	–	75	68	–	68
A Kitchingman – Appointed 11 May 2016	29	–	29	–	–	–
A Palmer-Baunack – Chairman until 10 April 2015	–	–	–	21	–	21

Defined benefit pension scheme

Mr Cowen and Mr Hunter were members of the Molins UK Pension Fund until April 2012 and the following table relates to their benefits under that scheme.

	Accrued pension at 31 December 2016 £ pa
D J Cowen	49,027
R C Hunter	33,465

Directors' interests in shares

The beneficial interests of directors holding office at 31 December 2016 and persons connected with them in the ordinary shares of the Company (excluding share options) were as follows:

	Held at 1 January 2016	Acquired in the year	Held at 31 December 2016
D J Cowen	100,219	23,300	123,519
P J Moorhouse	–	20,000	20,000

No director holds, or held at any time during the year, a beneficial interest in the Company's preference shares. There were no changes in the directors' interests in shares between 31 December 2016 and 2 March 2017.

Incentive scheme – Deferred share plan

Details of conditional grants of Molins ordinary shares under the Company's Deferred share plan yet to vest for each director who held office during the year and who is eligible to participate in the plan are as follows:

	Date of award	Basis of award (% of salary)	Number of shares	Face value at grant £000
D J Cowen	27 February 2014	33.5%	42,000	70

Awards are made following the achievement of personal objectives linked to long-term strategic initiatives. The earliest date that awards can vest is three years from the date of award. No awards were made to the executive directors in 2015 or 2016.

In 2016 Mr Cowen exercised conditional grants that were awarded in 2013. The value of this exercise to Mr Cowen was £27,727.

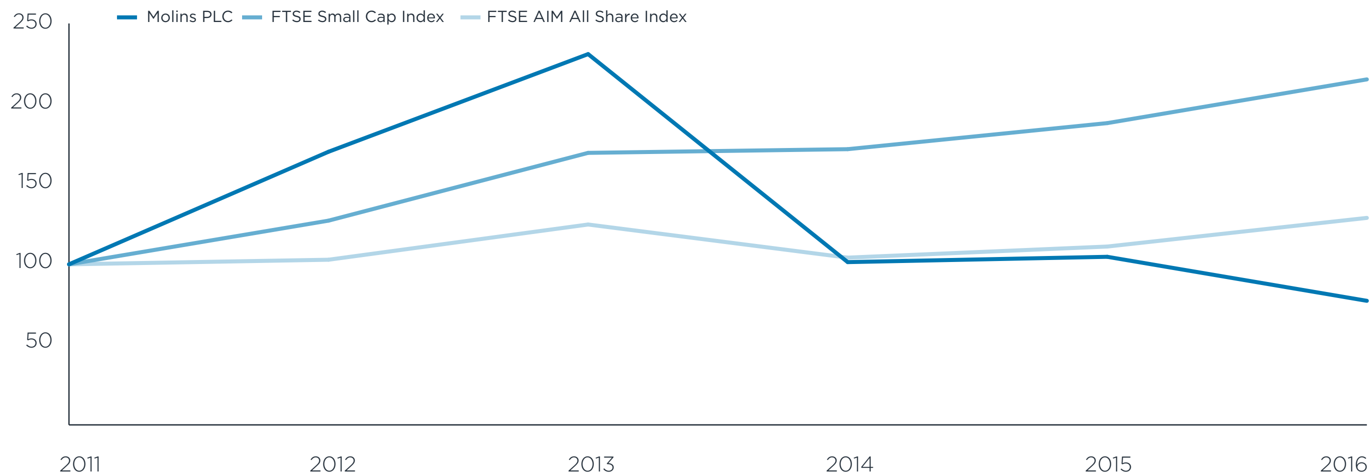
Awards made to Mr Hunter in 2014, with a face value at the time the grants were made of £167,000, lapsed in 2016 as a consequence of his leaving the employment of the Company. Rather than exercise awards that were made to Mr Hunter in 2013, the Company chose instead to pay the cash equivalent value of the deferred shares, of £31,297, and the award duly lapsed.

Payments to past directors

There were no payments made to past directors during the period in respect of services provided to the Company after their appointment was terminated, except that Mr Hunter received remuneration for the period from the date he ceased to be a director, on 6 June 2016, until the date his employment ceased on 7 July 2016.

Total shareholder return (TSR) information

The Company's TSR performance is shown in the following line graph over the last five years, compared with the FTSE Small Cap Index and the FTSE AIM All Share Index. The Board believes these are the most appropriate broad equity market indices with which to compare the Company's performance.



Remuneration policy

This part of the Remuneration Committee's report sets out the Remuneration policy which was determined by the Company's Remuneration Committee and was subject to a binding vote at the 2014 Annual General Meeting on 24 April 2014, which is effective for a period of up to three years. It is not subject to audit. The policy will be subject to a binding vote at the Annual General Meeting on 20 April 2017, and if approved it will be effective until no later than 20 April 2020.

The Remuneration policy is designed to ensure that the remuneration packages offered, and the terms of the contracts of service, are competitive and are designed to attract, retain and motivate executive directors of the right calibre. To achieve these goals, the Remuneration Committee's policy is to establish fixed salary at around half of the total obtainable in the case of excellent performance, with recognition and reward for achieving performance targets annually and growth in the long-term.

Remuneration packages

The main components of the package for each executive director are:

i. Basic salary

Basic salary is determined by taking into account the performance of the individual and information on the rates of salary for similar jobs in companies of comparable size and complexity in a range of engineering and other technology industries.

ii. Incentive schemes

The executive directors participate in incentive schemes in which the aggregated minimum bonus payable is nil and the maximum bonus payable is 120% of relevant salaries, of which a maximum of 70% of salary is payable in cash (awarded under the rules of the Short-term incentive scheme) and a maximum of 50% of salary is payable in deferred shares (currently awarded as conditional grants in Molins ordinary shares under the Company's Deferred share plan). The targets against which performance is judged are primarily the Group's underlying earnings per share in respect of the Short-term incentive scheme, set annually by the Remuneration Committee, and specific personal objectives linked directly to long-term strategic initiatives to enhance shareholder value in respect of the Deferred share plan. The directors' personal objectives are commercially sensitive and therefore remain, and are expected to continue to remain, confidential to the Company. In some years the targets for the Short-term incentive scheme may be varied to reflect particular objectives determined by the Remuneration Committee. The Remuneration Committee took advice on good practice in this area in 2009 from Willis Towers Watson and also considered appropriate benchmarking against similar companies.

The main terms of the Deferred share plan are that an award is made, subject to the achievement of personal objectives, in the form of a nil cost option, which stipulates the number of deferred shares being awarded. Awards in each year are usually determined shortly after publication of the Company's preliminary results announcement and, provided the director is still in the employment of the Company on the third anniversary of the award being made, the stated number of shares will be granted to the director at any time requested by the director from the third anniversary to, normally, the fourth anniversary. Alternatively, in exceptional circumstances and at the Company's absolute discretion, the Company may make a cash payment of a sum equivalent to the value of the shares that would otherwise have been granted. In certain circumstances, for example retirement, the director may exercise a proportion of an award before the third year anniversary of the conditional grant.

iii. Pensions

Molins' policy, from April 2012, is, in lieu of payments to a pension scheme, to pay additional emoluments to the executive directors. Alternatively, directors may choose to join the Molins Personal Pension Plan, which is a defined contribution scheme. Additionally, life assurance and income protection policies are put in place for the executive directors.

Until April 2012 Molins' policy was to offer its executive directors membership of the Molins UK Pension Fund (the Fund), which is a funded, HM Revenue & Customs approved, contributory, career average (since 1 September 2006), occupational pension scheme. Prior to 1 September 2006 benefits were accrued on a final salary basis. Accrual of benefits ceased for all remaining members of the Fund on 30 November 2012.

The Fund's pensionable salary is the member's basic salary, subject to the earnings cap introduced by the Finance Act 1989, limiting the calculation of remuneration for the purposes of pensions and death benefits under approved schemes to a level of, at present, £150,600. In the case of Mr Cowen, the Company paid increased pension benefits through the payment of additional emoluments and death benefit through top-up life assurance. Membership of the Fund ceased in April 2012 for the Executive directors.

The Fund's main features as they affect Mr Cowen, the only remaining executive director who was a member of the Fund, are:

- a normal pensionable age of 60;
- in respect of the career average salary pension (i.e. accruing from 1 September 2006) pension was accrued at the rate of 1/37th of each year's pensionable salary. Pension accrued each year on a final salary basis (i.e. up to and including 31 August 2006) shall be paid on his final pensionable salary as at the date of his leaving membership of the Fund or retirement from the Company;
- pension payable in the event of ill health and incapacity; and
- spouse's pension on death.

Contracts of service

The Company's policy is to offer contracts of employment that attract, motivate and retain skilled employees who are incentivised to deliver the Company's strategy. The current service contracts were concluded with Mr Cowen on 18 October 2002 and with Dr Steels on 6 June 2016. These service contracts are terminable on notice of one year given by the Company and six months given by the director. In the event of termination by the Company, the Company has the option of making a payment of liquidated damages equivalent to the value of 12 months' salary (plus in respect of Mr Cowen the value of 12 months' benefits), or the balance of the period to the date of expiry if less, or of negotiating appropriate compensation reflecting the principle of mitigation. In the event of a change of control in the Company, if the Company terminates Mr Cowen's contract within 24 months of the change of control or Dr Steels' contract within six months of the change of control, or if the director terminates the contract within six months of the change of control, the Company will be obliged to pay liquidated damages equivalent to the value of 12 months' salary (and in the case of Mr Cowen benefits, including bonus at the rate of the average of the two previous years). The purpose of the change of control clause, which is reviewed regularly, is that the contracts should provide reasonable and appropriate security to the directors concerned and to the Company.

Any commitment contained within the current directors' service contracts, or a current employee's contract of employment who is subsequently promoted to the role of director, will be honoured even where it may be inconsistent with the Company's Remuneration policy.

Letters of appointment

The non-executive directors are not issued with a separate service contract on appointment. The terms of their appointment are set out in their letter of appointment. The Company does not make termination payments to non-executive directors in the event a non-executive director's appointment is terminated by the Company.

Recruitment

The Committee reserves the right to make payments outside the Remuneration policy in exceptional circumstances. The Committee would only use this right where it believes that this is in the best interests of the Company and when it would be disproportionate to seek the specific approval of the shareholders in a general meeting.

When hiring a new executive director, the Committee will use the Remuneration policy to determine the executive director's remuneration package. To facilitate the hiring of candidates of the appropriate calibre to implement the Group's strategy, the Committee may include any other remuneration component or award not explicitly referred to in this Remuneration policy sufficient to attract the right candidate. In determining the appropriate remuneration the Committee will take into consideration all relevant factors (including the quantum and nature of the remuneration) to ensure the arrangements are in the best interests of the Company and its shareholders.

The Committee may buy-out incentive arrangements forfeited on leaving a previous employer after taking account of relevant factors including the form of the award, any performance conditions attached to the award and when they would have vested. The Committee may consider other components for structuring the buy-out including cash or share awards where there is a commercial rationale for this.

Where the recruitment requires the individual to relocate appropriate relocation costs may be offered.

Recruitment awards will normally be liable to forfeiture or clawback if the executive director leaves the Company within the first two years of their employment. Any such awards will be linked to the achievement of appropriate and challenging performance measures and will be forfeited if performance or continued employment conditions are not met.

Termination

The Committee reserves the right to make additional liquidated damages payments outside the terms of the directors' service contracts where such payments are made in good faith in order to discharge an existing legal obligation (or by way of damages for breach of such an obligation) or by way of settlement or compromise of any claim arising in connection with the termination of a director's office or employment.

Non-executive directors

The fees of non-executive directors are determined by the Board based upon comparable market levels. The non-executive directors do not participate in the Company's incentive schemes and nor do they receive any benefits or pension contributions.

Future Remuneration policy table

The following table provides a summary of the key components of the remuneration package for directors:

Salary	
Purpose and link to strategy	This is a fixed element of the executive directors' remuneration and is intended to be competitive and attract, retain and motivate.
Operation	Takes into account the performance of the individual and information on the rates of salary for similar jobs in companies of comparable size and complexity in a range of engineering and technology industries.
Opportunity	Salary is normally reviewed annually. Ordinarily, salary increases will be in line with increases awarded to other employees within the Group. However, increases may be made above this level at the Remuneration Committee's discretion to take account of individual circumstances such as: • increase in scope and responsibility; • to reflect the individual's development and performance in the role; and • alignment to market level.
Performance metrics	Not applicable, although individual performance is one of the considerations in determining the level of salary.
Benefits	
Purpose and link to strategy	The benefits provided to the executive directors are intended to be competitive and attract and retain the right calibre of candidate.
Operation	Benefits are paid to the executive directors in line with market practice.
Opportunity	Benefits are set at a level which the Remuneration Committee considers: • are appropriately positioned against comparable roles in companies of a similar size and complexity in the relevant market; and • provide a sufficient level of benefit based upon the role and individual circumstances.
Performance metrics	Not applicable.
Short-term incentive scheme	
Purpose and link to strategy	The Short-term incentive scheme is intended to reward executive directors for the performance of the Group in the financial year.
Operation	The Remuneration Committee reviews the financial performance of the Group following the end of each financial year and determines the payments to be made.
Opportunity	Maximum of 70% of salary.
Performance metrics	The targets against which performance is judged are primarily the Group's underlying earnings per share in each financial year set annually by the Remuneration Committee. In some years the targets for the Short-term incentive scheme may be varied to reflect particular objectives determined by the Remuneration Committee. The Remuneration Committee retains the ability to adjust and/or set different performance measures if events occur (such as a change in strategy, a material acquisition/divestment of a Group business, a change in prevailing market conditions, or a change in regulation which affects one or other of the Group businesses) which cause the Remuneration Committee to determine that the measures are no longer appropriate and that amendment is required so that they achieve their original purpose.

Deferred share plan	
Purpose and link to strategy	The Deferred share plan is intended to reward executive directors for their contribution in respect of the longer-term development of the Group.
Operation	The Remuneration Committee assesses the achievements of each director in respect of targets set annually and determines the award to be made, typically shortly after the Company's preliminary results announcement.
Opportunity	Maximum of 50% of salary, valued at the date of award of the conditional grant.
Performance metrics	The targets against which performance is judged are specific objectives personal to each director aimed at contributing towards the longer-term development of the Group. The Remuneration Committee retains the ability to adjust and/or set different performance measures if events occur (such as a change in strategy, a material acquisition/divestment of a Group business, a change in prevailing market conditions, or a change in regulation which affects one or other of the Group businesses) which cause the Remuneration Committee to determine that the measures are no longer appropriate and that amendment is required so that they achieve their original purpose.

Pension	
Purpose and link to strategy	The payment of a pension benefit is intended to form an integral part of an executive director's remuneration package that is competitive and attracts, retains and motivates the director.
Operation	Directors may join the Molins Personal Pension Plan, or alternatively, in lieu of payments to the pension scheme, the Company may pay additional emoluments.
Opportunity	Any percentage increase in pension contributions will not exceed the percentage increase in salary.
Performance metrics	Not applicable.

Non-executive directors' fees	
Purpose and link to strategy	To attract and retain non-executive directors of the right calibre.
Operation	The fees of non-executive directors are determined by the Board based upon comparable market levels. The non-executive directors do not participate in the Company's incentive schemes and nor do they receive any benefits or pension contributions.

Statement of consideration of employment conditions elsewhere in the Company

The Company applies the same key principles to setting remuneration for its employees as those applied to the directors' remuneration. In setting salaries and benefits each business considers the need to retain and incentivise key employees and the impact such policy has on the continued success of the Company.

By order of the Board

John Davies
Chairman of the Remuneration Committee
2 March 2017

Business review
The directors' business review is set out as part of the Strategic report with the results of the Group being set out in the Consolidated income statement on page 34 and in its related notes.

Going concern
The Group's activities together with the factors likely to affect its future development, performance and position are described within the Strategic report on pages 1 to 15. The directors have considered the trading outlook of the Group, its financial position, including its cash resources and access to borrowings, as set out in note 20 to the accounts on page 59, and its continuing obligations, including to its defined benefit pension schemes, details of which are set out in note 24 to the accounts on pages 61 to 65. Having made due enquiries the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Dividends
Having considered the trading results for 2016, together with the opportunities for investment in the growth of the Company, the Board has decided that it is appropriate not to pay a final dividend. An interim dividend of 1.25p was paid in October 2016, totalling £0.2m. Future dividend payments and the development of a new dividend policy will be considered by the Board in the context of 2017 trading performance and when the Board believes it is prudent to do so.

Dividends on the 6% preference shares are due for payment on 30 June and 31 December in each year and in 2016 amounted to £0.1m (2015: £0.1m).

Research and development
Group policy is to retain and enhance its market position through the design and development of specialist machinery, instrumentation and services. To achieve this objective, engineering and product development facilities are maintained in the UK and overseas. Research and development expenditure incurred in 2016, net of third-party income, amounted to £2.0m (2015: £2.6m), of which £0.8m (2015: £0.7m) was charged to the Consolidated income statement and £1.2m (2015: £1.9m) was capitalised and included in development costs.

Directors and directors' interests
The names of the directors of the Company at the date of this report are shown on page 19.

Directors' interests in the Company's shares as at 31 December 2016 are shown on page 24 in the Remuneration report. There are no shareholding requirements for directors.

Substantial shareholdings
At 2 March 2017, the Company had been notified, in accordance with the AIM Rules for Companies, of the following interests in the issued ordinary share capital of the Company:

	Number of ordinary shares	% of issued ordinary shares
Schroder Investment Management Limited	4,835,087	24.0
River and Mercantile Asset Management LLP	1,169,949	5.8
Mr G V L Oury	887,548	4.4

Share capital
Authority for the purchase of up to 3,000,000 own ordinary shares for cancellation was granted at the 2016 Annual General Meeting and this authority expires on 20 April 2017. The directors consider it appropriate to seek further authority from the shareholders at the forthcoming Annual General Meeting for the Company to purchase its own shares.

Resolution 10, which will be proposed as a special resolution, will seek the necessary authority to enable the Company to purchase for cancellation ordinary shares in the market for a period of up to 12 months from the date of the meeting, upon the terms set out in the resolution, up to a maximum number of 3,000,000 ordinary shares representing approximately 15% of the issued ordinary share capital at the date of the notice convening the Annual General Meeting.

EES Trustees International Limited holds shares as trustee in connection with the Company's long-term incentive arrangements for the benefit of the Group's employees; at 2 March 2017 it held 371,416 shares. The trustee has agreed to waive all dividends and not to exercise voting rights in respect of shares representing 1.8% of the issued share capital.

Information about the Company's share capital is given in note 25 to the accounts on page 67.

Annual General Meeting

The Annual General Meeting will take place on 20 April 2017. Notice of the meeting can be found on pages 81 to 87.

Social, community and human rights

Employment policies

The Group is committed to developing its employment policies in line with best practice and providing equal opportunities for all, irrespective of gender, age, marital status, sexual orientation, ethnic origin, religious belief or disability. Full and fair consideration is given to applications for employment from people with disabilities having regard to their aptitudes and abilities. Every reasonable effort is made to support those who become disabled, either in the same job or, if this is not practicable, in suitable alternative work.

Gender diversity

The information contained within the table below relates to employees of Molins PLC only and does not include employees of the Company's overseas subsidiaries.

	Men (%)	Women (%)
Directors	100	–
Senior managers	69	31
Total employees	79	21

Employee involvement

Emphasis is placed on training, effective communication and the involvement of employees in the development of the business. Information is regularly provided on the progress of the Group through local review meetings, briefings and consultative bodies. Involvement in the achievements of the business is encouraged through other means appropriate to each location.

Ethics policy

The Group's Ethics policy was reviewed, updated and reissued in April 2014. The Ethics policy, which is distributed to every Group employee and is available on the Group's website at www.molins.com, sets out the values which Molins PLC seeks to encourage and certain principles governing the way it does business.

Environmental policy

The Group is committed not only to compliance with environmental legislation but also to the progressive introduction of appropriate measures to limit the adverse effects of its operations upon the environment. In particular, efforts are made to minimise waste arising from operations, to recycle materials wherever possible and to consider alternative methods of design or operation. The Group aims both to reduce its costs by these means and to promote good practice in use of resources at sustainable levels.

Annual quantity of emissions

Molins PLC has chosen to report emissions for the Group on a voluntary basis as set out below. Emissions are measured as tonnes of CO_2 equivalent resulting directly from the Group's purchase of electricity and the combustion of fuel arising from the activities of the Group for which it is responsible and an intensity ratio has also been included.

	Emissions (tonnes of CO_2 equivalent)	Intensity ratio (tonnes of CO_2 equivalent per employee[a])
Purchased electricity	1,296	
Combustion of fuel	424	
Total	1,720	2.5

[a] Calculated using average number of employees in the year.

By order of the Board

Nick Eland
Secretary
2 March 2017

Statement of directors' responsibilities in respect of the annual report, the directors' report and the financial statements

The directors are responsible for preparing the Annual Report, the Directors' report and the 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. As required by the AIM Rules of the London Stock Exchange they are required to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and applicable law and have elected to prepare the parent company financial statements on the same basis.

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 and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent Company will continue in business.

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 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.

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.

The directors consider that the Annual Report and Accounts, 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.

Responsibilities statement

Each of the directors, whose names and functions are listed on page 19, confirm that to the best of their knowledge:

- the financial statements, prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group and the Company; and
- the Strategic report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties the Group faces.

In accordance with section 418 of the Companies Act 2006, each director in office at the date the Annual Report and Accounts is approved, confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

By order of the Board

Tony Steels
Chief Executive
2 March 2017

David Cowen
Group Finance Director

Independent Auditor's report to the members of Molins PLC

We have audited the financial statements of Molins PLC for the year ended 31 December 2016 set out on pages 34 to 78. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' responsibilities statement set out on page 32, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2016 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept 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 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.

Peter Selvey
(Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Altius House
One North Fourth Street
Milton Keynes
MK9 1NE
2 March 2017

Consolidated income statement
for the year ended 31 December

		2016			2015		
	Note	Underlying £m	Non-underlying £m	Total £m	Underlying £m	Non-underlying £m	Total £m
Revenue	1	**80.1**	**–**	**80.1**	87.0	–	87.0
Cost of sales		**(58.5)**	**–**	**(58.5)**	(63.8)	–	(63.8)
Gross profit		**21.6**	**–**	**21.6**	23.2	–	23.2
Other operating income	2	**–**	**–**	**–**	–	0.2	0.2
Distribution expenses		**(8.5)**	**–**	**(8.5)**	(7.9)	–	(7.9)
Administrative expenses		**(11.2)**	**(1.8)**	**(13.0)**	(10.6)	(1.3)	(11.9)
Other operating expenses	3	**(0.8)**	**–**	**(0.8)**	(0.7)	–	(0.7)
Operating (loss)/profit	1,4	**1.1**	**(1.8)**	**(0.7)**	4.0	(1.1)	2.9
Financial income	8	**0.1**	**0.4**	**0.5**	0.1	–	0.1
Financial expenses	8	**(0.3)**	**(0.3)**	**(0.6)**	(0.3)	(0.7)	(1.0)
Net financing expense		**(0.2)**	**0.1**	**(0.1)**	(0.2)	(0.7)	(0.9)
(Loss)/profit before tax		**0.9**	**(1.7)**	**(0.8)**	3.8	(1.8)	2.0
Taxation	9	**(0.1)**	**0.3**	**0.2**	(0.9)	0.6	(0.3)
(Loss)/profit for the period from continuing operations		**0.8**	**(1.4)**	**(0.6)**	2.9	(1.2)	1.7
Loss for the period from discontinued operations	30	**–**	**–**	**–**	–	(5.8)	(5.8)
Loss for the period		**0.8**	**(1.4)**	**(0.6)**	2.9	(7.0)	(4.1)
Basic loss per ordinary share	11			**(3.3)p**			(20.9)p
Diluted loss per ordinary share	11			**(3.3)p**			(20.9)p

Statements of comprehensive income
for the year ended 31 December

		Group		Company	
	Note	2016 £m	2015 £m	2016 £m	2015 £m
Loss for the period		**(0.6)**	(4.1)	**(0.4)**	(3.3)
Other comprehensive (expense)/income					
Items that will not be reclassified to profit or loss					
Actuarial (losses)/gains	24	**(6.3)**	24.6	**(7.5)**	24.0
Tax on items that will not be reclassified to profit or loss	9	**2.0**	(6.6)	**2.5**	(6.4)
		(4.3)	18.0	**(5.0)**	17.6
Items that may be reclassified subsequently to profit or loss					
Currency translation movements arising on foreign currency net investments		**3.7**	(2.2)	**–**	–
Effective portion of changes in fair value of cash flow hedges		**0.7**	(0.1)	**0.6**	–
Tax on items that may be reclassified to profit or loss		**(0.2)**	–	**(0.1)**	–
		4.2	(2.3)	**0.5**	–
Other comprehensive (expense)/income for the period		**(0.1)**	15.7	**(4.5)**	17.6
Total comprehensive (expense)/income for the period		**(0.7)**	11.6	**(4.9)**	14.3

Statements of changes in equity
for the year ended 31 December

	Group						
	Share capital £m	Share premium £m	Translation reserve £m	Capital redemption reserve £m	Hedging reserve £m	Retained earnings £m	Total equity £m
Balance at 1 January 2015	5.0	26.0	0.7	3.9	(0.6)	(9.1)	25.9
Loss for the period	–	–	–	–	–	(4.1)	(4.1)
Other comprehensive income/ (expense) for the period	–	–	(2.2)	–	(0.1)	18.0	15.7
Total comprehensive income/ (expense) for the period	–	–	(2.2)	–	(0.1)	13.9	11.6
Dividends to shareholders	–	–	–	–	–	(1.1)	(1.1)
Equity-settled share-based transactions	–	–	–	–	–	0.3	0.3
Purchase of own shares	–	–	–	–	–	(0.1)	(0.1)
Total transactions with owners, recorded directly in equity	–	–	–	–	–	(0.9)	(0.9)
Balance at 31 December 2015	5.0	26.0	(1.5)	3.9	(0.7)	3.9	36.6
Balance at 1 January 2016	**5.0**	**26.0**	**(1.5)**	**3.9**	**(0.7)**	**3.9**	**36.6**
Loss for the period	**–**	**–**	**–**	**–**	**–**	**(0.6)**	**(0.6)**
Other comprehensive (expense)/ income for the period	**–**	**–**	**3.7**	**–**	**0.5**	**(4.3)**	**(0.1)**
Total comprehensive (expense)/ income for the period	**–**	**–**	**3.7**	**–**	**0.5**	**(4.9)**	**(0.7)**
Dividends to shareholders	**–**	**–**	**–**	**–**	**–**	**(0.5)**	**(0.5)**
Equity-settled share-based transactions	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Purchase of own shares	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total transactions with owners, recorded directly in equity	**–**	**–**	**–**	**–**	**–**	**(0.5)**	**(0.5)**
Balance at 31 December 2016	**5.0**	**26.0**	**2.2**	**3.9**	**(0.2)**	**(1.5)**	**35.4**

	Company						
	Share capital £m	Share premium £m	Translation reserve £m	Capital redemption reserve £m	Hedging reserve £m	Retained earnings £m	Total equity £m
Balance at 1 January 2015	5.0	26.0	–	3.9	(0.6)	16.9	51.2
Loss for the period	–	–	–	–	–	(3.3)	(3.3)
Other comprehensive income for the period	–	–	–	–	–	17.6	17.6
Total comprehensive income for the period	–	–	–	–	–	14.3	14.3
Dividends to shareholders	–	–	–	–	–	(1.1)	(1.1)
Equity-settled share-based transactions	–	–	–	–	–	0.3	0.3
Purchase of own shares	–	–	–	–	–	(0.1)	(0.1)
Total transactions with owners, recorded directly in equity	–	–	–	–	–	(0.9)	(0.9)
Balance at 31 December 2015	5.0	26.0	–	3.9	(0.6)	30.3	64.6
Balance at 1 January 2016	**5.0**	**26.0**	**–**	**3.9**	**(0.6)**	**30.3**	**64.6**
Loss for the period	**–**	**–**	**–**	**–**	**–**	**(0.4)**	**(0.4)**
Other comprehensive (expense)/ income for the period	**–**	**–**	**–**	**–**	**0.5**	**(5.0)**	**(4.5)**
Total comprehensive (expense)/ income for the period	**–**	**–**	**–**	**–**	**0.5**	**(5.4)**	**(4.9)**
Dividends to shareholders	**–**	**–**	**–**	**–**	**–**	**(0.5)**	**(0.5)**
Equity-settled share-based transactions	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Purchase of own shares	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total transactions with owners, recorded directly in equity	**–**	**–**	**–**	**–**	**–**	**(0.5)**	**(0.5)**
Balance at 31 December 2016	**5.0**	**26.0**	**–**	**3.9**	**(0.1)**	**24.4**	**59.2**

Statements of financial position
as at 31 December

	Note	Group 2016 £m	Group 2015 £m	Company 2016 £m	Company 2015 £m
Non-current assets					
Intangible assets	12	**15.2**	14.9	**11.8**	12.2
Property, plant and equipment	13	**8.5**	8.0	**2.9**	3.2
Investment property	14	**0.8**	0.8	**0.8**	0.8
Investments	15	**–**	–	**50.6**	50.6
Employee benefits	24	**4.6**	10.6	**4.6**	10.6
Deferred tax assets	16	**4.6**	4.2	**–**	–
		33.7	38.5	**70.7**	77.4
Current assets					
Inventories	17	**13.0**	15.1	**6.2**	7.3
Trade and other receivables	19	**24.5**	17.9	**12.3**	10.3
Current tax assets	10	**0.2**	–	**–**	–
Cash and cash equivalents	21	**9.0**	10.4	**2.7**	6.4
		46.7	43.4	**21.2**	24.0
Current liabilities					
Bank overdraft	21	**(0.3)**	(0.6)	**–**	–
Trade and other payables	22	**(25.9)**	(18.9)	**(22.3)**	(18.8)
Current tax liabilities	10	**(0.4)**	(0.5)	**–**	(0.1)
Provisions	23	**(1.7)**	(1.2)	**(0.5)**	(0.6)
Provisions held within discontinued operations	30	**–**	(0.2)	**–**	–
		(28.3)	(21.4)	**(22.8)**	(19.5)
Net current assets/(liabilities)		**18.4**	22.0	**(1.6)**	4.5
Total assets less current liabilities		**52.1**	60.5	**69.1**	81.9
Non-current liabilities					
Interest-bearing loans and borrowings	20	**(7.9)**	(13.0)	**(7.9)**	(13.0)
Employee benefits	24	**(6.8)**	(6.6)	**–**	–
Deferred tax liabilities	16	**(2.0)**	(4.3)	**(2.0)**	(4.3)
		(16.7)	(23.9)	**(9.9)**	(17.3)
Net assets	1	**35.4**	36.6	**59.2**	64.6
Equity					
Issued capital	25	**5.0**	5.0	**5.0**	5.0
Share premium		**26.0**	26.0	**26.0**	26.0
Reserves		**5.9**	1.7	**3.8**	3.3
Retained earnings		**(1.5)**	3.9	**24.4**	30.3
Total equity		**35.4**	36.6	**59.2**	64.6

These financial statements were approved by the directors on 2 March 2017 and signed on their behalf by:

Tony Steels
Director

David Cowen
Director

Registered number: 124855

Statements of cash flow
for the year ended 31 December

	Note	Group		Company	
		2016 £m	2015 £m	2016 £m	2015 £m
Operating activities					
Operating (loss)/profit from continuing operations		(0.7)	2.9	(0.4)	0.2
Non-underlying items included in operating profit		1.8	1.1	0.8	0.9
Amortisation	12	1.5	1.4	1.2	1.1
Depreciation	13	1.3	1.2	0.6	0.6
Other non-cash items		0.2	0.2	–	0.2
Pension payments		(2.0)	(1.9)	(1.8)	(1.8)
Working capital movements:					
– decrease/(increase) in inventories		3.5	2.2	1.1	(0.7)
– (increase)/decrease in trade and other receivables		(4.2)	6.4	(1.7)	7.1
– increase/(decrease) in trade and other payables		5.6	(8.1)	3.9	(4.3)
– decrease in provisions		(0.1)	(0.1)	(0.1)	(0.2)
Cash flows from continuing operations before reorganisation		6.9	5.3	3.6	3.1
Cash used in discontinued operations	30	(0.2)	(1.2)	–	–
Reorganisation costs paid		(0.3)	(0.4)	(0.1)	(0.3)
Cash flows from operations		6.4	3.7	3.5	2.8
Taxation (paid)/received		(0.2)	(0.1)	(0.1)	0.2
Cash flows from operating activities		6.2	3.6	3.4	3.0
Investing activities					
Interest received		0.1	0.1	–	0.1
Proceeds from sale of property, plant and equipment		0.3	0.4	–	–
Capitalised development expenditure	12	(1.2)	(1.9)	(0.8)	(1.7)
Acquisition of intellectual property	12	–	(0.2)	–	(0.2)
Acquisition of property, plant and equipment	13	(1.2)	(1.3)	(0.3)	(0.3)
Dividends received		–	–	–	0.5
Net proceeds on disposal of discontinued operations	30	–	0.2	–	–
Cash flows from investing activities		(2.0)	(2.7)	(1.1)	(1.6)
Financing activities					
Interest paid		(0.3)	(0.3)	(0.3)	(0.2)
Purchase of own shares		–	(0.1)	–	(0.1)
Net (decrease)/increase against revolving facilities		(5.2)	1.1	(5.2)	1.3
Dividends paid	25	(0.5)	(1.1)	(0.5)	(1.1)
Cash flows from financing activities		(6.0)	(0.4)	(6.0)	(0.1)
Net (decrease)/increase in cash and cash equivalents	21	(1.8)	0.5	(3.7)	1.3
Cash and cash equivalents at 1 January		9.8	9.8	6.4	5.1
Effect of exchange rate fluctuations on cash held		0.7	(0.5)	–	–
Cash and cash equivalents at 31 December		8.7	9.8	2.7	6.4

Accounting policies

The significant accounting policies which are set out below apply to both the Group and Company financial statements, as appropriate.

Basis of accounting

Molins PLC (the Company) is a company incorporated and domiciled in the UK. The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the Group).

Both the Company financial statements and the Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU (Adopted IFRSs).

The financial statements have been prepared on the historical cost basis except that derivative financial instruments, principally forward foreign exchange contracts, are stated at fair value and non-current assets are stated at the lower of previous carrying amount and fair value less costs to sell.

The preparation of financial statements in conformity with Adopted IFRS requires the directors to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and assumptions are based on historical experience and other factors considered reasonable at the time, but actual results may differ from these estimates. Revisions to these estimates are made in the period in which they are recognised.

The accounting policies, presentation and methods of computation applied by the Group and Company in these financial statements are the same as those applied in the 2015 financial statements.

Non-underlying items and alternative performance measures

Non-underlying items are income and expenditure that, because of the nature of the item, merit separate presentation in the income statement to allow a better understanding of the Group's financial performance by facilitating comparisons with prior periods and assessments of trends in financial performance. Non-underlying items may include, but are not limited to, the impact on the income statement of the Group's defined benefit pension schemes including administration charges and pension interest, significant reorganisation costs, profits or losses arising on discontinued operations, significant impairments of tangible or intangible assets and related taxation. Accordingly alternative performance measures, which exclude non-underlying items, are presented to aid interpretation of performance.

Further analysis of the items included in non-underlying items is provided in note 5 to the financial statements.

Changes in accounting policy

The following new standards and amendments, which are effective for periods beginning on or after 1 January 2016, have been adopted for both the Group and Company financial statements, as appropriate and unless stated otherwise have not resulted in any material impact on either the Group or Company financial statements.

Disclosure Initiative (Amendments to IAS 1) – The amendments aim at clarifying IAS 1 to address perceived impediments to preparers exercising their judgement in presenting their financial reports.

Recent accounting developments

At the date of this report the following standards and interpretations relevant to the Group and Company, which have not been applied in this report, were in issue but not yet effective:

IFRS 15 *Revenue from Contracts with Customers* – the standard, which will be adopted for the year ending 31 December 2018, will supersede IAS 11 *Construction Contracts* and IAS 18 *Revenue*, which the Group and Company currently adhere to. IFRS 15 is a control-based model where revenue is recognised when control of an asset (goods or services) passes. The criteria, based on a five step approach, for determining whether control is transferred could potentially result in different patterns of revenue recognition than those previously seen under IAS 11 and IAS 18.

The five steps, as set out in IFRS 15, are as follows:

1. Identify the contract with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligation in the contract
5. Recognise revenue when (or as) the entity satisfied a performance obligation

For all significant contracts where the outcome of the transaction can be assessed reliably the Group and Company apply IAS 11 *Construction Contracts* with reference to the assessed stage of completion, based on an estimate of labour costs completed at the statement of financial position date as a proportion of total expected labour costs for the contract. Under IFRS 15 the business is assessing whether revenue on those same contracts can be recognised on a similar basis over time using the labour cost completion input method.

For revenue relating to other contracts currently recognised under IAS 18 *Revenue* when the significant risks and rewards of ownership transfer to the customer, the business is assessing whether the identification of performance criteria will cause a material difference to the timing of revenue recognition.

IFRS 16 *Leases* – the standard, which will be adopted for the year ending 31 December 2019, will supersede IAS 17 *Leases* which the Group and Company currently adhere to. The expected impact of the adoption of the standard is for lessee operating leases currently not recognised on the balance sheet to become an on-balance sheet liability together with a right-of-use asset. In addition, the standard potentially alters the pattern of expense with interest and lease payments being charged to the income statement and the right-of-use asset being depreciated in accordance with IAS 16 *Property, Plant and Equipment*.

Going concern

The Group's activities together with the factors likely to affect its future development, performance and position are described within the Operating review on pages 4 and 5, Financial review on pages 12 and 13 and in the Principal risks and uncertainties on pages 14 and 15.

The directors have considered the trading outlook of the Group, its financial position, including its cash resources and access to borrowings, as set out in the Financial review on pages 12 and 13 and in note 20 to the accounts on page 59, and its continuing obligations, including to its defined benefit pension schemes, details of which are set out in note 24 to the accounts on pages 61 to 65. Having made due enquiries the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Basis of consolidation

The Group financial statements comprise the consolidated results of the Company and all of its subsidiary companies together with the Group's share of the results of its associated companies on an equity accounting basis. A separate income statement dealing only with the results of the Company has not been presented in accordance with section 408 of the Companies Act 2006.

A subsidiary is a company controlled, directly or indirectly, by the Group. Control is the power to govern the financial and operating policies of the subsidiary company so as to obtain benefits from its activities. A subsidiary's results are included in the Group financial statements from the date that control commences until the date that control ceases.

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions are eliminated in preparing the consolidated financial statements.

Foreign currency

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 statement of financial position date are translated 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 at foreign exchange rates ruling at the date the fair value was determined.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated at foreign exchange rates ruling at the statement of financial position date.

The revenues and expenses of foreign operations are translated at an average rate for the period where this rate approximates to the foreign exchange rates ruling at the dates of the transactions.

Exchange differences arising from the translation of foreign operations, and of related qualifying hedges, are taken directly to the translation reserve. They are released into the income statement upon disposal.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the subsidiary or associated undertaking at the date of acquisition.

Goodwill is recognised as an asset and is reviewed for impairment at least annually. Any impairment is recognised immediately through the income statement and is not subsequently reversed. Impairment losses recognised are allocated first to reduce the carrying value of the goodwill the business relates to, and then to reduce the carrying value of the other assets of that business on a pro rata basis.

On disposal of a subsidiary or associated undertaking, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions prior to 2004 has been retained at its deemed cost, representing the amount recorded under UK GAAP, and is subject to impairment review as indicated above. Goodwill written off to reserves under UK GAAP prior to 1998 is not included in determining any subsequent profit or loss on disposal.

Research and development

Research and development and related product development costs are charged to the income statement in the year in which they are incurred unless they are specifically chargeable to and recoverable from customers under agreed contract terms or the expenditure meets the criteria for capitalisation.

Where the expenditure relates to the development of a new product for which the technical feasibility and commercial viability of the product is expected, where development costs can be measured reliably and where future economic benefits are probable, development costs are capitalised and amortised over their useful economic lives, to a maximum of five years. The expenditure capitalised includes costs of materials, direct labour and an appropriate proportion of overheads. Such intangible assets are assessed for indicators of impairment at least annually and any impairment is charged to the income statement.

Other intangible assets

Other intangible assets are valued at cost less accumulated amortisation and impairment charges and amortised on a straight-line basis over their estimated useful economic life. All intangible assets are tested for impairment at least annually and any impairment is charged to the income statement.

Property, plant and equipment

Property, plant and equipment is stated at cost or deemed cost less accumulated depreciation and any provision for impairment in value.

Depreciation is provided on a straight-line basis to write-off the cost, less the estimated residual value, of property, plant and equipment over their estimated useful lives.

The annual depreciation rates used are as follows:

Freehold land	–	nil
Freehold buildings	–	3% on cost or deemed cost
Leasehold property	–	over life of lease
Plant and machinery	–	8% to 25%
Fixtures, fittings and vehicles	–	10% to 33%

The carrying value of property, plant and equipment is reviewed at least annually for indicators of impairment. Any change in value arising from impairment is charged or credited (up to the carrying value prior to any previous impairment) to the income statement for the year.

Certain items of property that had been revalued to fair value on or prior to 1 January 2004, the date of transition to IFRS, are measured on the basis of deemed cost, being the revalued amount at the date of the revaluation.

Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation, is stated at cost. Depreciation is based on cost less residual value. Where the expected residual value exceeds cost no depreciation is provided.

Investments

Investments in subsidiary undertakings are held at cost less provision for any impairment in value. The carrying value of investments in subsidiary undertakings are reviewed at least annually for indicators of impairment.

Inventories

Inventories are valued at the lower of cost, including appropriate overheads, and net realisable value. Provisions are made against excess and obsolete inventories.

Construction contracts

The attributable profit recognised on construction contracts is based on the stage of completion and the overall contract profitability after taking account of uncertainties. Full provision is made for any estimated losses to completion of contracts.

The gross amount due from customers for contract work and the gross amount due to customers for contract work are shown within trade and other receivables and trade and other payables respectively. They are measured at cost plus profit recognised to date less deposits billed on account and recognised losses.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term fixed deposits, and for the statements of cash flows they also include bank overdrafts.

Share capital

When share capital is repurchased, the amount of consideration paid, including directly attributable costs, is recognised as a change in equity. Repurchased shares are classified as treasury shares and presented as a deduction from total equity.

Preference share capital is classified as a liability as dividend payments are not discretionary.

Dividends on the preference shares are disclosed as interest charges, are recognised as a liability and are accounted for on an accruals basis. Dividends on ordinary shares are only recognised in the period in which they are paid.

Financial instruments

IAS 39 *Financial instruments: recognition and measurement* requires the classification of financial instruments into different types for which the accounting requirement is different. The Group has classified its financial instruments as follows:

- short-term fixed deposits, principally comprising funds held with banks and other financial institutions, are classified as loans and receivables;
- borrowings are classified as other liabilities; and
- derivatives, comprising forward foreign exchange contracts, are classified as instruments that are held for trading.

Financial instruments are initially measured at fair value. Their subsequent measurement depends on their classification:

- loans and receivables and other liabilities are held at amortised cost; and
- instruments that are held for trading are held at fair value. Changes in fair value are included in the income statement unless the instrument is included in a cash flow hedge.

Hedge accounting

The Group applies cash flow hedge accounting to forward foreign exchange contracts, held to reduce the exposure to movements in the future value of foreign currency receipts and payments.

For those contracts included in an effective cash flow hedging relationship, changes in the fair value of the hedging instrument are recognised in other comprehensive income and taken to equity. When the hedged forecast transaction occurs, amounts previously recorded in equity are recognised in the income statement. Any ineffectiveness in the hedging arrangement is included in the income statement.

Post-retirement and other employee benefits

The Group and Company account for pensions and other post-retirement benefits under IAS 19 *Employee benefits*.

For defined benefit schemes, the net obligation is calculated separately for each scheme by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods. The benefit is discounted to determine its present value, and the fair value of the schemes' assets (at bid price) is deducted. The liability discount rate is either the yield at the statement of financial position date on AA credit rated bonds that have maturity dates approximating to the terms of the obligations or by a cash flow matching method reflecting the duration of the liabilities, whichever more accurately reflects the schemes' pattern of cash flows. The calculations are performed by qualified actuaries using the projected unit credit method. The expense of administering the pension schemes and financing income/expense of the schemes are recognised in the income statement. Past service costs/credits and curtailment costs/credits are recognised in the periods in which they arise. Actuarial gains and losses are recognised in the period in which they arise in other comprehensive income.

Payments to defined contribution schemes are charged to the income statement as incurred.

The net obligation in respect of long-term service benefits, other than pension plans, is the amount of the future benefit that employees have earned in return for their service in the current and prior periods. Obligations are measured at their present value.

Share-based payments

The Group has applied the requirements of IFRS 2 *Share-based payments*.

The Group issues equity-settled share-based payments to certain employees. These are measured at their fair value at the date of grant and are expensed on a straight-line basis over the vesting period, based on an estimate of the number of shares that will eventually vest, and adjusted for the effect of non-market related conditions.

Charges made to the income statement in respect of share-based payments are credited to retained earnings.

Provisions

A provision is recognised when the Group has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

Revenue

Revenue comprises sales to third-party customers after discounts, excluding value added tax and other sales taxes.

Revenue from goods is recognised when the significant risks and rewards of ownership of goods are transferred to the customer. Revenue from services is recognised when value or benefit has been transferred to the customer. Where the impact of discounting to present value is significant, revenues are recognised at present value.

Construction contract revenues are recognised when the outcome of the transaction can be assessed reliably. Revenue is recognised by reference to the stage of completion which is dependent on the nature of the contract, but will generally be based on labour costs incurred up to the reporting date or achievement of contractual milestones where appropriate.

Leases
Rentals payable under operating leases are charged to the income statement over the term of the lease.

Interest receivable
Interest receivable is recognised in the income statement using the effective interest method as defined in IAS 39 *Financial instruments: recognition and measurement*.

Borrowing costs
Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

Taxation
Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income, in which case it is recognised in the statements of comprehensive income, or to items recorded directly in equity in which case it is recorded directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill; the initial recognition of other assets and liabilities that affect neither the taxable profit nor the accounting profit; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Operating segments
An operating segment is a component of the Group that is engaged in business activities from which it may earn revenues and incur expenses, and for which discrete financial information is available. All operating segments' results are regularly reviewed by the Group's chief operating decision maker, which is the Board of directors, in order to assess performance and make decisions about the allocation of resources to each segment.

Notes to the accounts

1. Operating segments

The Group has two operating segments which are the Group's two divisions and form the basis of the Group's management and internal reporting structure. Further details in respect of the products and services offered by each of the two divisions can be found on page 1. A commentary on the performance of the two operating segments during the year is provided in the Operating review on pages 4 and 5. All segment information is prepared in accordance with the Group accounting policies shown on pages 40 to 44.

Information regarding the results of each operating segment is included below. Performance is measured based on underlying segment operating profit as included in the internal management reports provided to the Group's chief operating decision maker. Segment profit or loss includes those central items that are allocated to segment results in the internal management accounts. Unallocated items comprise defined benefit pension scheme net costs, profit on sale of surplus property, net financing income/expense and taxation. The unallocated items are excluded from segment profit or loss as they are managed centrally by employees at the Group's head office as corporate activities.

The measurement of segment assets and liabilities excludes central items that are not allocated to the two divisions in the Group's internal management accounts. Unallocated items comprise mainly goodwill, net debt/funds, pension assets/liabilities, taxation balances and net liabilities attributable to the Group's head office.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets that are expected to be used for more than one period.

Segment information

	Packaging Machinery		Instrumentation & Tobacco Machinery		Total	
	2016 £m	2015 £m	**2016 £m**	2015 £m	**2016 £m**	2015 £m
Revenue	**41.5**	51.0	**38.6**	36.0	**80.1**	87.0
Underlying segment operating profit	**0.7**	3.9	**0.4**	0.1	**1.1**	4.0
Segment non-underlying items	**(0.8)**	–	**(0.1)**	(0.4)	**(0.9)**	(0.4)
Segment operating profit/(loss)	**(0.1)**	3.9	**0.3**	(0.3)	**0.2**	3.6
Unallocated non-underlying items					**(0.9)**	(0.7)
Operating (loss)/profit					**(0.7)**	2.9
Net financing expense					**(0.1)**	(0.9)
(Loss)/profit before tax					**(0.8)**	2.0
Taxation					**0.2**	(0.3)
(Loss)/profit for the period from continuing operations					**(0.6)**	1.7
Loss for the period from discontinued operations					**–**	(5.8)
Loss for the period					**(0.6)**	(4.1)
Segment assets	**23.2**	18.7	**30.3**	31.9	**53.5**	50.6
Segment liabilities	**(18.4)**	(10.4)	**(8.8)**	(10.1)	**(27.2)**	(20.5)
Segment net assets – continuing operations	**4.8**	8.3	**21.5**	21.8	**26.3**	30.1
Unallocated net (liabilities)/assets					**9.1**	6.7
Net liabilities – discontinued operations					**–**	(0.2)
Total net assets					**35.4**	36.6
Continuing operations						
Capital expenditure (including development expenditure)	**1.4**	1.2	**1.0**	2.0	**2.4**	3.2
Depreciation and amortisation	**1.0**	0.9	**1.8**	1.7	**2.8**	2.6

1. Operating segments continued

Geographical information

Revenue

Continuing operations	By location of customer 2016 £m	2016 %	2015 £m	2015 %
UK	**5.1**	**6**	6.8	8
Europe (excl. UK)	**17.3**	**22**	22.2	26
Africa & Middle East	**7.8**	**10**	7.9	9
USA	**20.2**	**25**	22.1	25
Americas (excl. USA)	**9.3**	**12**	7.5	9
Asia Pacific	**20.4**	**25**	20.5	23
	80.1	**100**	87.0	100

Non-current assets (excluding taxation balances)

	By location of assets 2016 £m	2015 £m
UK	**20.3**	26.9
USA	**2.5**	2.1
Canada	**2.9**	2.4
Rest of the world	**3.4**	2.9
	29.1	34.3

Major customers

No single customer accounted for more than 10% of Group revenue in either 2016 or 2015.

Revenue by type

An analysis of the Group's revenue is as follows:

Continuing operations	2016 £m	2015 £m
Sale of goods	**72.2**	80.4
Rendering of services	**7.9**	6.6
	80.1	87.0

2. Other operating income

	2016 £m	2015 £m
Profit on sale of surplus property (included in non-underlying items)	**–**	0.2

3. Other operating expenses

	2016 £m	2015 £m
Research and development costs (expensed as incurred)	**0.8**	0.7

4. Operating profit

Continuing operations	2016 £m	2015 £m
Operating profit is arrived at after charging:		
Amortisation of capitalised development costs	1.5	1.4
Depreciation of owned assets	1.3	1.2
Cost of inventories recognised as an expense	50.9	56.5
Operating leases		
– land and buildings	1.0	1.0
– other	0.3	0.3
Audit fees paid to KPMG (Company £0.1m; 2015: £0.1m)	0.2	0.2
Other fees paid to KPMG		
– tax services (Company £0.1m; 2015: £0.1m)	0.1	0.1

5. Non-underlying items

	2016 £m	2015 £m
Non-underlying items		
Defined benefit pension schemes administration costs	(0.9)	(0.9)
Reorganisation costs		
– Packaging Machinery	(0.8)	–
– Instrumentation & Tobacco Machinery[a]	(0.1)	(0.2)
Net financing income/(expense) on pension scheme balances	0.1	(0.7)
Total non-underlying expenditure before tax	(1.7)	(1.8)
Underlying profit before tax	0.9	3.8
(Loss)/profit before tax	(0.8)	2.0

[a] 2015 net of a credit of £0.2m arising from the sale of surplus property.

The profit before tax in 2015 was before the loss from discontinued operations. Cash payments of £0.2m were made in 2016 (2015: £0.1m) in respect of reorganisations in earlier periods.

6. Employee information

	Period end		Average	
Continuing operations	2016	2015	2016	2015
The number of persons employed by the Group was:				
Packaging Machinery	288	302	304	291
Instrumentation & Tobacco Machinery	354	385	371	417
Head Office (including non-executive directors and pension scheme administrators)	15	14	15	14
	657	701	690	722

6. Employee information continued

Continuing operations	Note	2016 £m	2015 £m
Employment costs for the Group were:			
Wages and salaries		24.0	22.1
Social security costs		3.7	3.4
Employee benefits			
– defined contribution schemes		1.4	1.3
– equity-settled share-based transactions	24	–	0.3
		29.1	27.1

7. Emoluments of directors and interests in shares

Information on the emoluments of the directors, together with information regarding the beneficial interests of the directors and persons connected with them in the ordinary shares of the Company, is included in the Remuneration report on pages 23 and 24.

8. Net financing expense

	2016 £m	2015 £m
Financial income:		
Amounts receivable on cash and cash equivalents	0.1	0.1
Interest received on pension scheme balances	0.4	–
	0.5	0.1
Financial expenses:		
Amounts payable on bank loans and overdrafts	(0.2)	(0.2)
Preference dividends paid	(0.1)	(0.1)
Interest cost on pension scheme balances	(0.3)	(0.7)
	(0.6)	(1.0)
Net financing expense	(0.1)	(0.9)

Interest costs on pension scheme balances are included in non-underlying items.

9. Taxation

	2016 £m	2015 £m
Tax (credit)/expense:		
Current tax	(0.2)	0.2
Deferred tax	–	0.1
Total taxation	(0.2)	0.3

Included within the total taxation is a tax credit of £0.3m (2015: £0.6m) attributable to the non-underlying items set out in note 5.

Reconciliation of effective tax rate

Continuing operations	2016 £m	2015 £m
(Loss)/profit before tax	**(0.8)**	2.0
Income tax using the UK corporation tax rate of 20.00% (2015: 20.25%)	**(0.2)**	0.4
Tax effect of expenses not deductible for tax purposes	**0.1**	0.2
Tax incentives	**–**	–
Tax effect of utilisation of tax losses not previously recognised	**–**	(0.2)
Adjustment in respect of prior years	**–**	0.1
Change in unrecognised deferred tax assets	**(0.1)**	(0.2)
Total (credit)/expense	**(0.2)**	0.3

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Company's future current tax charge accordingly. The rate of deferred tax liability arising from the surplus in respect of the UK defined benefit pension scheme is 35%. The deferred tax balances at 31 December 2016 has been calculated based on these rates.

In view of probable timing of the utilisation of brought forward losses, deferred tax assets have not been recognised on tax losses and timing differences in respect of the Group companies in USA and Brazil.

Deferred tax credit/(charge) on items in other comprehensive (expense)/income

	2016 £m	2015 £m
Arising from actuarial losses/gains	**2.0**	(6.6)

10. Current tax assets and liabilities

Current tax assets of £0.2m (2015: £nil) and current tax liabilities of £0.4m (2015: £0.5m) for the Group, and current tax liabilities of £nil (2015: £0.1m) for the Company, represent the amount of income taxes recoverable and payable in respect of current and prior periods.

11. Earnings per share

Basic loss per share

The calculation of basic loss per ordinary share is based upon the loss for the year of £0.6m (2015: £4.1m) and the weighted average number of ordinary shares in issue during the year. The weighted average number of shares excludes shares held by the employee trust in respect of the Company's deferred share plan arrangements.

Diluted loss per share

The calculation of diluted loss per ordinary share is based upon the loss for the year of £0.6m (2015: £4.1m) and the diluted weighted average number of ordinary shares in issue during the year. For diluted earnings per ordinary share, the weighted average number of shares includes the diluting effect, if any, of own shares held by the employee trust.

	2016	2015
Weighted average number of ordinary shares (non-diluted and diluted) at 31 December	19,754,631	19,574,724

In the 12 months to 31 December 2016 and 31 December 2015 the effect of the dilution would be to decrease the loss per ordinary share and is therefore excluded from the dilution calculation. The adjusted weighted average number of ordinary shares for the diluted underlying earnings per share calculation (see below) in the 12 months to 31 December 2016 is 19,939,954 (2015: 19,831,957).

Underlying and diluted underlying earnings per share

Underlying earnings per ordinary share and diluted underlying earnings per ordinary share, which are calculated on profit before non-underlying items, amounted to 3.7p (2015: 15.1p) in respect of underlying earnings per share and 3.6p (2015: 14.9p) in respect of diluted underlying earnings per share.

The calculations of underlying earnings per ordinary share and diluted underlying earnings per ordinary share are based upon an underlying profit for the period of £0.8m (2015: £2.9m) which is calculated as follows:

	2016 £m	2015 £m
Loss for the period	**(0.6)**	(4.1)
Non-underlying items (net of tax)	1.4	1.2
Loss from discontinued operations	–	5.8
Underlying profit for the period	**0.8**	2.9

12. Intangible assets

	Group				Company			
	Goodwill £m	Development costs £m	Other intangibles £m	Total £m	Goodwill £m	Development costs £m	Other intangibles £m	Total £m
Cost:								
Balance at 1 January 2015	11.9	19.9	–	31.8	7.2	17.0	–	24.2
Additions	–	1.9	0.2	2.1	–	1.7	0.2	1.9
Disposals	(3.8)	(1.3)	–	(5.1)	(0.9)	(0.9)	–	(1.8)
Retranslation	0.3	(0.2)	–	0.1	–	–	–	–
Balance at 31 December 2015	8.4	20.3	0.2	28.9	6.3	17.8	0.2	24.3
Balance at 1 January 2016	**8.4**	**20.3**	**0.2**	**28.9**	**6.3**	**17.8**	**0.2**	**24.3**
Additions	**–**	**1.2**	**–**	**1.2**	**–**	**0.8**	**–**	**0.8**
Disposals	**–**	**(0.3)**	**–**	**(0.3)**	**–**	**(0.3)**	**–**	**(0.3)**
Retranslation	**0.4**	**0.6**	**–**	**1.0**	**–**	**–**	**–**	**–**
Balance at 31 December 2016	**8.8**	**21.8**	**0.2**	**30.8**	**6.3**	**18.3**	**0.2**	**24.8**
Amortisation and impairment losses:								
Balance at 1 January 2015	3.3	12.8	–	16.1	1.9	10.8	–	12.7
Amortisation for the period	–	1.4	–	1.4	–	1.1	–	1.1
Disposals	(3.8)	(1.0)	–	(4.8)	(0.9)	(0.8)	–	(1.7)
Impairment	1.3	–	–	1.3	–	–	–	–
Retranslation	0.2	(0.2)	–	–	–	–	–	–
Balance at 31 December 2015	1.0	13.0	–	14.0	1.0	11.1	–	12.1
Balance at 1 January 2016	**1.0**	**13.0**	**–**	**14.0**	**1.0**	**11.1**	**–**	**12.1**
Amortisation for the period	**–**	**1.5**	**–**	**1.5**	**–**	**1.2**	**–**	**1.2**
Disposals	**–**	**(0.3)**	**–**	**(0.3)**	**–**	**(0.3)**	**–**	**(0.3)**
Retranslation	**–**	**0.4**	**–**	**0.4**	**–**	**–**	**–**	**–**
Balance at 31 December 2016	**1.0**	**14.6**	**–**	**15.6**	**1.0**	**12.0**	**–**	**13.0**
Carrying amounts:								
At 1 January 2015	8.6	7.1	–	15.7	5.3	6.2	–	11.5
At 31 December 2015	7.4	7.3	0.2	14.9	5.3	6.7	0.2	12.2
At 31 December 2016	**7.8**	**7.2**	**0.2**	**15.2**	**5.3**	**6.3**	**0.2**	**11.8**

The amortisation for development costs is included in cost of sales in the Consolidated income statement.

12. Intangible assets continued

Goodwill

The carrying amount of goodwill at 31 December 2016 relates to the acquisitions of businesses by the Group and Company and is attributable to the following cash generating unit (CGU).

	Group		Company	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Cerulean	**7.8**	7.4	**5.3**	5.3

Impairment review of goodwill

An annual impairment review of goodwill is undertaken and is determined from a value in use calculation for the CGU using cash flow projections over a five year period which are based on the latest three year plan presented to the Board, modified as appropriate to reflect the latest conditions. The main assumptions for the CGU, which relate to sales volume, selling prices and cost changes, are based on recent history and expectations of future changes in the market. No growth rate is applied to cash flows beyond the period of the projections. The discount rates applied to the cash flow forecasts for the CGU are based on a market participant's pre-tax market discount rate.

The discount rate applied in respect of Cerulean was 10.1% (2015: 10.8%) and there was no impairment of goodwill during the year in respect of that CGU. Management considers that reasonable possible changes in the assumptions would be an increase in the market discount rate of 1.0%, a reduction in the sales of 5% and a 5% reduction in their operating profit. None of these changes in assumptions would have resulted in an impairment in the year.

13. Property, plant and equipment

	Group				Company			
	Land and buildings £m	Plant and machinery £m	Fixtures, fittings and vehicles £m	Total £m	Land and buildings £m	Plant and machinery £m	Fixtures, fittings and vehicles £m	Total £m
Cost:								
Balance at 1 January 2015	8.7	11.1	12.4	32.2	3.4	0.8	3.1	7.3
Additions	0.1	0.7	0.5	1.3	–	0.1	0.2	0.3
Disposals	(1.9)	(0.6)	(4.6)	(7.1)	–	–	–	–
Retranslation	(0.3)	(0.9)	(0.2)	(1.4)	–	–	–	–
Balance at 31 December 2015	6.6	10.3	8.1	25.0	3.4	0.9	3.3	7.6
Balance at 1 January 2016	**6.6**	**10.3**	**8.1**	**25.0**	**3.4**	**0.9**	**3.3**	**7.6**
Additions	**0.2**	**0.7**	**0.3**	**1.2**	**0.1**	**0.1**	**0.1**	**0.3**
Disposals	**–**	**(1.4)**	**(0.6)**	**(2.0)**	**–**	**–**	**(0.2)**	**(0.2)**
Retranslation	**0.8**	**1.5**	**0.7**	**3.0**	**–**	**–**	**–**	**–**
Balance at 31 December 2016	**7.6**	**11.1**	**8.5**	**27.2**	**3.5**	**1.0**	**3.2**	**7.7**
Depreciation:								
Balance at 1 January 2015	2.3	8.8	9.8	20.9	1.1	0.2	2.5	3.8
Depreciation charge for the period	0.3	0.6	0.5	1.4	0.1	0.3	0.2	0.6
Disposals	(0.5)	(0.3)	(3.3)	(4.1)	–	–	–	–
Retranslation	(0.1)	(0.8)	(0.3)	(1.2)	–	–	–	–
Balance at 31 December 2015	2.0	8.3	6.7	17.0	1.2	0.5	2.7	4.4
Balance at 1 January 2016	**2.0**	**8.3**	**6.7**	**17.0**	**1.2**	**0.5**	**2.7**	**4.4**
Depreciation charge for the period	**0.3**	**0.5**	**0.5**	**1.3**	**0.2**	**0.2**	**0.2**	**0.6**
Disposals	**–**	**(1.1)**	**(0.5)**	**(1.6)**	**–**	**–**	**(0.2)**	**(0.2)**
Retranslation	**0.3**	**1.0**	**0.7**	**2.0**	**–**	**–**	**–**	**–**
Balance at 31 December 2016	**2.6**	**8.7**	**7.4**	**18.7**	**1.4**	**0.7**	**2.7**	**4.8**
Carrying amounts:								
At 1 January 2015	6.4	2.3	2.6	11.3	2.3	0.6	0.6	3.5
At 31 December 2015	4.6	2.0	1.4	8.0	2.2	0.4	0.6	3.2
At 31 December 2016	**5.0**	**2.4**	**1.1**	**8.5**	**2.1**	**0.3**	**0.5**	**2.9**

At 31 December 2016 assets disclosed as land and buildings with a carrying value of £4.6m were used as security for bank loans (2015: £4.3m).

In 2015 included within the Group's depreciation charge for the period was £0.2m in respect of discontinued operations.

14. Investment property

	Group		Company	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Balance at 1 January 2015 and 31 December 2015	**0.8**	0.8	**0.8**	0.8
Balance at 31 December 2016	**0.8**	0.8	**0.8**	0.8

Investment property is shown at cost. The fair value of the investment property at 31 December 2016 is £0.9m (2015: £0.9m) and has been arrived at on the basis of a valuation carried out by independent valuers. The valuation, which conforms to International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties.

15. Investments

Company	Cost of shares in subsidiaries £m
Balance at 1 January 2015 and 31 December 2015	50.6
Balance at 31 December 2016	**50.6**

The Company's subsidiary undertakings are shown in note 32.

Impairment review of investments

Annual impairment reviews of investments in subsidiaries are undertaken and are determined from value in use calculations for each cash generating unit (CGU) using cash flow projections based on the latest three year plan approved by the Board. The main assumptions for each CGU, which relate to sales volume, selling prices and cost changes, are based on recent history and expectations of future changes in the market. Cash flows beyond the period of the projections are extrapolated at growth rates which do not exceed those used in the three year plan. The discount rates applied to the cash flow forecasts for each CGU is based on a market participant's pre-tax market discount rate range of between 8.4% and 18.8% (2015: 10.6% to 16.9%).

There has been no impairment of investments in subsidiaries in the year. Management considers that reasonable possible changes in the assumptions would be an increase in the market discount rate of 1.0%, a reduction in the sales of the subsidiaries of 5% and a 5% reduction in their operating profit. None of these changes in assumptions would have resulted in an impairment of investments in subsidiaries in the year.

16. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

Group	Assets		Liabilities		Net	
	2016 £m	2015 £m	**2016 £m**	2015 £m	**2016 £m**	2015 £m
Intangible assets	**1.7**	1.2	**(1.3)**	(1.3)	**0.4**	(0.1)
Property, plant and equipment	**0.1**	0.1	**–**	(0.1)	**0.1**	–
Employee benefits	**2.7**	2.6	**(1.6)**	(3.7)	**1.1**	(1.1)
Inventories	**0.1**	0.2	**–**	–	**0.1**	0.2
Foreign currency derivatives	**0.1**	0.2	**–**	–	**0.1**	0.2
Provisions	**0.4**	0.4	**–**	–	**0.4**	0.4
Translation movements on foreign currency investments	**–**	–	**(0.2)**	(0.2)	**(0.2)**	(0.2)
Own shares (employee trust)	**–**	0.1	**–**	–	**–**	0.1
Tax losses	**0.6**	0.4	**–**	–	**0.6**	0.4
Deferred tax assets/(liabilities)	**5.7**	5.2	**(3.1)**	(5.3)	**2.6**	(0.1)
Offset of tax	**(1.1)**	(1.0)	**1.1**	1.0	**–**	–
Net deferred tax assets/(liabilities)	**4.6**	4.2	**(2.0)**	(4.3)	**2.6**	(0.1)

Company	Assets		Liabilities		Net	
	2016 £m	2015 £m	**2016 £m**	2015 £m	**2016 £m**	2015 £m
Intangible assets	**–**	–	**(1.3)**	(1.3)	**(1.3)**	(1.3)
Property, plant and equipment	**0.1**	0.1	**–**	–	**0.1**	0.1
Employee benefits	**–**	–	**(1.6)**	(3.7)	**(1.6)**	(3.7)
Foreign currency derivatives	**–**	0.1	**–**	–	**–**	0.1
Provisions	**0.2**	0.1	**–**	–	**0.2**	0.1
Own shares (employee trust)	**–**	0.1	**–**	–	**–**	0.1
Tax losses	**0.6**	0.3	**–**	–	**0.6**	0.3
Deferred tax assets/(liabilities)	**0.9**	0.7	**(2.9)**	(5.0)	**(2.0)**	(4.3)
Offset of tax	**(0.9)**	(0.7)	**0.9**	0.7	**–**	–
Net deferred tax liabilities	**–**	–	**(2.0)**	(4.3)	**(2.0)**	(4.3)

Deferred tax is measured at the rates that are expected to apply in the period when the temporary differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the statement of financial position date.

No deferred tax is recognised on the unremitted earnings of overseas subsidiaries and associates. As the earnings are continually reinvested by the Group, no tax is expected to be payable on them in the foreseeable future.

16. Deferred tax assets and liabilities continued

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of temporary differences arising in certain subsidiary companies.

These assets are only recognised to the extent that their recovery is reasonably certain. At the year end the Group had £10.9m of unrecognised deferred tax assets (2015: £8.8m) which would become recoverable if the relevant companies were to make sufficient profits in the future. Under current tax legislation these tax assets expire as follows:

	Group	
Expiry	**2016 £m**	2015 £m
10 to 20 years	**5.7**	4.3
No expiry date	**5.2**	4.5
	10.9	8.8

Movement in temporary differences during the year

Group	Balance at 1 January 2016 £m	Recognised in profit or loss £m	Recognised in other comprehensive income/(expense) £m	Recorded in equity £m	Retranslation £m	Balance at 31 December 2016 £m
Intangible assets	**(0.1)**	**0.2**	**–**	**–**	**0.3**	**0.4**
Property, plant and equipment	**–**	**0.1**	**–**	**–**	**–**	**0.1**
Employee benefits	**(1.1)**	**(0.3)**	**2.0**		**0.5**	**1.1**
Inventories	**0.2**	**(0.1)**	**–**	**–**	**–**	**0.1**
Foreign currency derivatives	**0.2**	**–**	**(0.2)**	**–**	**0.1**	**0.1**
Provisions	**0.4**	**–**	**–**	**–**	**–**	**0.4**
Translation movements on foreign currency investments	**(0.2)**	**–**	**–**	**–**	**–**	**(0.2)**
Own shares (employee trust)	**0.1**	**(0.1)**	**–**	**–**	**–**	**–**
Tax losses	**0.4**	**0.2**	**–**	**–**	**–**	**0.6**
	(0.1)	**–**	**1.8**	**–**	**0.9**	**2.6**

Group	Balance at 1 January 2015 £m	Recognised in profit or loss £m	Recognised in other comprehensive income/(expense) £m	Recorded in equity £m	Retranslation £m	Balance at 31 December 2015 £m
Intangible assets	0.2	(0.1)	–	–	(0.2)	(0.1)
Property, plant and equipment	–	–	–	–	–	–
Employee benefits	5.4	–	(6.6)	–	0.1	(1.1)
Inventories	0.2	–	–	–	–	0.2
Foreign currency derivatives	0.1	–	0.1	–	–	0.2
Provisions	0.5	–	–	–	(0.1)	0.4
Translation movements on foreign currency investments	(0.3)	–	–	–	0.1	(0.2)
Own shares (employee trust)	0.1	–	–	–	–	0.1
Tax losses	0.2	0.2	–	–	–	0.4
	6.4	0.1	(6.5)	–	(0.1)	(0.1)

Company	Balance at 1 January 2016 £m	Recognised in profit or loss £m	Recognised in other comprehensive income/ (expense) £m	Recorded in equity £m	Balance at 31 December 2016 £m
Intangible assets	**(1.3)**	**–**	**–**	**–**	**(1.3)**
Property, plant and equipment	**0.1**	**–**	**–**	**–**	**0.1**
Employee benefits	**(3.7)**	**(0.4)**	**2.5**	**–**	**(1.6)**
Foreign currency derivatives	**0.1**	**–**	**(0.1)**	**–**	**–**
Provisions	**0.1**	**0.1**	**–**	**–**	**0.2**
Own shares (employee trust)	**0.1**	**(0.1)**	**–**	**–**	**–**
Tax losses	**0.3**	**0.3**	**–**	**–**	**0.6**
	(4.3)	**(0.1)**	**2.4**	**–**	**(2.0)**

Company	Balance at 1 January 2015 £m	Recognised in profit or loss £m	Recognised in other comprehensive income/ (expense) £m	Recorded in equity £m	Balance at 31 December 2015 £m
Intangible assets	(1.2)	(0.1)	–	–	(1.3)
Property, plant and equipment	0.1	–	–	–	0.1
Employee benefits	2.8	(0.1)	(6.4)	–	(3.7)
Foreign currency derivatives	0.1	–	–	–	0.1
Provisions	0.2	(0.1)	–	–	0.1
Own shares (employee trust)	0.1	–	–	–	0.1
Tax losses	–	0.3	–	–	0.3
	2.1	–	(6.4)	–	(4.3)

17. Inventories

	Group		Company	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Raw materials and consumables	**1.8**	2.1	**0.9**	1.1
Work in progress	**4.4**	6.3	**0.9**	2.5
Finished goods	**6.8**	6.7	**4.4**	3.7
	13.0	15.1	**6.2**	7.3

An amount of £0.1m (2015: £nil) has been charged in the year in respect of inventory write-downs.

18. Construction contracts

	Group		Company	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Contracts in progress at statement of financial position date:				
Gross amount due from customers for contract work (included in Trade and other receivables)	**2.1**	1.0	**0.1**	0.3
Gross amount due to customers for contract work (included in Trade and other payables)	**(3.7)**	(0.5)	**(2.9)**	(0.2)

Revenue recognised during the year in respect of construction contracts amounted to £25.7m (2015: £31.5m) for the Group and £4.5m (2015: £7.9m) for the Company.

For contracts in progress at the statement of financial position date, the contract costs incurred plus recognised profits less recognised losses to date was £10.5m (2015: £13.8m) for the Group and £3.4m (2015: £7.9m) for the Company. Advances received from customers for contract work amounted to £7.9m (2015: £3.7m) and £3.1m (2015: £0.7m) for the Company.

Included within gross amount due to customers for contract work are trade receivables where deposits were invoiced but not received of £1.7m (2015: £0.2m) for the Group and £1.1m (2015: £nil) for the Company.

19. Trade and other receivables

	Group		Company	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Current assets:				
Trade receivables	**17.8**	12.3	**7.8**	5.3
Amounts owed by Group undertakings	**–**	–	**2.0**	2.1
Construction contracts	**2.1**	1.0	**0.1**	0.3
Other receivables	**0.9**	1.1	**0.3**	0.6
Prepayments and accrued income	**3.7**	3.5	**1.8**	1.6
Foreign currency derivatives	**–**	–	**0.3**	0.4
	24.5	17.9	**12.3**	10.3

20. Interest-bearing loans and borrowings

	Group		Company	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Non-current liabilities:				
Bank borrowings	**7.0**	12.1	**7.0**	12.1
Fixed rate cumulative preference shares	**0.9**	0.9	**0.9**	0.9
	7.9	13.0	**7.9**	13.0
Non-current liabilities:				
Repayable between one and two years	**7.0**	12.1	**7.0**	12.1
More than five years	**0.9**	0.9	**0.9**	0.9
	7.9	13.0	**7.9**	13.0

Preference shares

The preference shares carry a fixed cumulative preferential dividend at the rate of 6% per annum and on the winding-up of the Company entitle the holders to repayment of the capital paid up thereon (together with a sum equal to any arrears or deficiency of the fixed dividend calculated to the date of the return of capital and to be payable irrespective of whether such dividend has been declared or earned or not) in priority to any payment to the holders of the ordinary shares. The preference shares do not entitle the holders to any further participation in the profits or assets of the Company.

The preference shareholders are not entitled to receive notice of or to attend or vote at any general meeting unless either:

- at the date of the notice convening the meeting, the dividend on the preference shares is six months in arrears (for this purpose the dividend on the preference shares is deemed to be payable half-yearly on 30 June and 31 December); or
- the business of the meeting includes the consideration of a resolution for the winding-up of the Company, or for reducing its share capital or for sanctioning a sale of the undertaking, or any resolution directly and adversely affecting any of the special rights or privileges attached to the preference shares.

There were no arrears in the payment of preference dividends at the statement of financial position date.

Preference dividends paid amounted to £0.1m (2015: £0.1m).

21. Reconciliation of net cash flow to movement in net funds/debts

	Group		Company	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Net (decrease)/increase in cash and cash equivalents	**(1.8)**	0.5	**(3.7)**	1.3
Cash movement in borrowings	**5.2**	(1.1)	**5.2**	(1.3)
Change in net funds/(debt) resulting from cash flows	**3.4**	(0.6)	**1.5**	–
Translation movements	**0.6**	(0.5)	**(0.1)**	0.2
Movement in net funds/(debt) in the period	**4.0**	(1.1)	**1.4**	0.2
Opening net debt	**(3.2)**	(2.1)	**(6.6)**	(6.8)
Closing net funds/(debt)	**0.8**	(3.2)	**(5.2)**	(6.6)
Analysis of net funds/(debt):				
Cash and cash equivalents – current assets	**9.0**	10.4	**2.7**	6.4
Bank overdrafts – current liabilities	**(0.3)**	(0.6)	**–**	–
Interest-bearing loans and borrowings – non-current liabilities	**(7.9)**	(13.0)	**(7.9)**	(13.0)
Closing net funds/(debt)	**0.8**	(3.2)	**(5.2)**	(6.6)

22. Trade and other payables

	Group		Company	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Current liabilities:				
Deposits received on account	**3.9**	2.9	**0.3**	0.9
Trade payables	**7.0**	5.8	**4.4**	3.3
Amounts owed to Group undertakings	**–**	–	**10.2**	8.9
Construction contracts	**3.7**	0.5	**2.9**	0.2
Other taxes and social security	**0.6**	0.6	**0.3**	0.3
Other payables	**2.6**	2.7	**1.1**	1.7
Accruals and deferred income	**7.8**	5.9	**2.8**	3.2
Foreign currency derivatives	**0.3**	0.5	**0.3**	0.3
	25.9	18.9	**22.3**	18.8

Deposits received on account of £3.9m (2015: £2.9m) for the Group and £0.3m (2015: £0.9m) for the Company exclude £2.8m (2015: £2.1m) for the Group and £0.5m (2015: £1.2m) for the Company of deposit amounts billed on short-term contracts but not received. The deposit amounts billed but not received are included in accruals and deferred income.

23. Provisions

	Group		Company	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Balance at 1 January	**1.2**	1.3	**0.6**	0.8
Provision created in the year	**1.5**	0.6	**0.4**	0.1
Utilised during the year	**(0.9)**	(0.7)	**(0.2)**	(0.3)
Unused amounts reversed	**(0.3)**	–	**(0.3)**	–
Retranslation	**0.2**	–	**–**	–
Balance at 31 December	**1.7**	1.2	**0.5**	0.6

Provisions are based on historical data and a weighting of all possible outcomes against their associated possibilities. Except for specific identifiable claims, they are generally utilised within one year of the statement of financial position date.

24. Employee benefits

Defined contribution pension schemes

The Group operates a number of defined contribution pension schemes for employees. Contributions to these schemes are recognised as an expense in the Consolidated income statement as they fall due.

Defined benefit pension schemes

The Group is responsible for defined benefit pension schemes in the UK and the USA. All schemes are funded by Group companies as necessary, at rates determined by independent actuaries and as agreed between the trustees of the schemes and the sponsoring company.

The defined benefit pension schemes are administered by bodies that are legally separated from the Group. The trustees of the schemes are required by law to act in the interest of the schemes and of all relevant stakeholders in the schemes. The trustees of the schemes are responsible for the investment policies in respect of the assets of the schemes.

The pension schemes typically expose the Group to certain risks. These include the risk of investment under-performance, a fall in interest rates, an increase in life expectancy and an increase in inflation.

UK pension scheme

The Group operated one defined benefit pension scheme in the UK in which future accruals ceased in November 2012. The assets of the scheme are held separately from those of the Company and it is funded by the Company as necessary in order to ensure that the scheme can meet the expected benefit obligations. The funding policy is to ensure that the assets held by the scheme in the future are adequate to meet expected liabilities, allowing for future increases in pensions. The only assets of the scheme which are invested in the Company are an interest in the cumulative preference shares of the Company with an estimated current market value of £0.2m.

The most recent formal actuarial valuation of the scheme was carried out as at 30 June 2012 using the projected unit credit method. The market value of the scheme assets at that date was £315.8m and the funding level was 86% of liabilities, which represented a deficit of £53.0m. Following agreement between the trustee of the scheme and the Company of a deficit recovery plan, from 1 July 2013 the Company commenced paying to the scheme £1.7m per annum in monthly instalments, increasing by 2.1% per annum. The deficit recovery period from 30 June 2012 was estimated to be 17 years and 2 months, which is scheduled to be formally reassessed following the completion of the actuarial valuation being carried out as at 30 June 2015.

During the year the Company paid deficit recovery contributions of £1.8m (2015: £1.8m).

The Company accounts for pension costs under IAS 19 *Employee benefits* and the valuation used has been based on detailed actuarial valuation work carried out as at 30 June 2015, updated by the Company's actuary to assess the value of the liabilities of the scheme at 31 December 2016. Scheme assets are stated at their market value at 31 December 2016.

USA pension schemes

In the USA the Group has three defined benefit pension schemes, all of which are closed to future accrual. Formal independent actuarial valuations of the USA pension schemes were carried out as at 1 January 2016 using the projected unit credit method. The valuations under IAS 19 at 31 December 2016 have been based on these actuarial valuations, updated for conditions existing at the year end.

Employer contributions of £0.2m (2015: £0.1m) were paid during the year.

24. Employee benefits continued

Defined benefit pension schemes continued

Assumptions

The key financial assumptions used to calculate scheme liabilities and the financing expense on pension scheme balances are as follows:

	UK (Company)		USA	
	2016	2015	**2016**	2015
Discount rate	**2.5%**	3.7%	**4.0%**	4.0%
Inflation rate				
– CPI	**2.2%**	1.9%	**n/a**	n/a
– RPI	**3.3%**	3.0%	**n/a**	n/a
Increases to pensions in payment				
– final salary benefits	**2.2%**	1.9%	**n/a**	n/a
– career average benefits	**2.0%**	1.9%	**n/a**	n/a

The assumptions relating to longevity underlying the pension liabilities of the defined benefit pension schemes at the statement of financial position date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting an individual to live for a number of years as follows:

	UK scheme	USA schemes
Current pensioner aged 65 – male	21.2 years	20.8 to 21.6 years
Current pensioner aged 65 – female	23.5 years	22.8 to 23.7 years
Future retiree currently aged 45 upon reaching age 65 – male	22.5 years	20.7 years
Future retiree currently aged 45 upon reaching age 65 – female	25.0 years	20.3 years

At 31 December 2016 the weighted average duration of the defined benefit obligation in the UK scheme was 15 years (2015: 14 years) and in the USA schemes 11 years (2015: 11 years).

Significant actuarial assumptions for the determination of the defined benefit obligations are discount rate, inflation rate and mortality. The sensitivity analysis below has been determined assuming that all other assumptions are held constant.

Changes in values of pension schemes' liabilities before tax as at 31 December 2016	UK scheme	USA schemes
0.1% change in discount rate	£5.9m	£0.3m
0.1% change in inflation rate	£4.2m	n/a
Change in life expectancy by one year on average	£18.4m	£0.7m

Categories of assets and funded status

The fair values of scheme assets were as follows:

	UK (Company)		USA		Group	
	2016 £m	2015 £m	**2016 £m**	2015 £m	**2016 £m**	2015 £m
UK equities	**9.6**	22.5	**–**	–	**9.6**	22.5
Overseas equities	**103.9**	100.1	**5.4**	5.3	**109.3**	105.4
Bonds – index linked gilts	**81.2**	59.2	**–**	–	**81.2**	59.2
Bonds – other	**51.2**	45.7	**10.7**	8.0	**61.9**	53.7
Properties – funds	**36.6**	37.7	**1.0**	0.8	**37.6**	38.5
Properties – directly owned	**1.8**	1.8	**–**	–	**1.8**	1.8
Absolute return funds	**116.0**	78.3	**–**	–	**116.0**	78.3
Alternative investments	**–**	–	**–**	0.2	**–**	0.2
Other	**1.6**	1.6	**–**	0.6	**1.6**	2.2
Total fair (bid) value of scheme assets	**401.9**	346.9	**17.1**	14.9	**419.0**	361.8
Present value of defined benefit obligations	**(397.3)**	(336.3)	**(23.9)**	(21.5)	**(421.2)**	(357.8)
Defined benefit (liability)/asset	**4.6**	10.6	**(6.8)**	(6.6)	**(2.2)**	4.0

All equities, bonds, property funds, absolute return funds and the majority of alternative investments have quoted prices in active markets. Directly owned properties are subject to an independent valuation.

Disclosed defined benefit pension income/expense for financial year

A) Components of defined benefit pension income/expense

Net defined benefit pension expense recognised in the Consolidated income statement comprises:

	UK (Company)		USA		Group	
	2016 £m	2015 £m	**2016 £m**	2015 £m	**2016 £m**	2015 £m
Interest (income)/expense on net liability	**(0.4)**	0.4	**0.3**	0.3	**(0.1)**	0.7
Administration costs	**0.7**	0.7	**0.2**	0.2	**0.9**	0.9
Expense recognised in income statement	**0.3**	1.1	**0.5**	0.5	**0.8**	1.6

B) Statements of comprehensive income (SOCI)

The actuarial losses recognised in the SOCI in respect of pensions were £6.3m (2015: gains of £24.6m), comprising actuarial losses of £7.5m (2015: gains of £24.0m) for the UK defined benefit pension scheme and actuarial gains of £1.2m (2015: gains of £0.6m) for the USA schemes, all figures before tax.

Actual return on scheme assets

The actual return on scheme assets in 2016 were gains of £73.7m (2015: £16.8m), comprising gains of £72.9m (2015: £17.1m) for the UK defined benefit pension scheme and gains of £0.8m (2015: losses of £0.3m) for the USA schemes, all figures before tax.

24. Employee benefits continued

Defined benefit pension schemes continued

Reconciliation of the present value of defined benefit obligations

	UK (Company)		USA		Group	
	2016 £m	2015 £m	**2016 £m**	2015 £m	**2016 £m**	2015 £m
Present value of defined benefit obligations at 1 January	**336.3**	362.0	**21.5**	21.9	**357.8**	383.9
Interest cost	**12.1**	12.3	**0.9**	0.8	**13.0**	13.1
Actuarial losses/(gains)						
– Changes in demographic assumptions	**–**	(6.8)	**(0.4)**	(0.5)	**(0.4)**	(7.3)
– Changes in financial assumptions	**72.0**	(12.4)	**–**	(0.9)	**72.0**	(13.3)
– Experience	**(4.1)**	0.4	**(0.6)**	–	**(4.7)**	0.4
Benefit payments	**(19.0)**	(19.2)	**(1.4)**	(1.1)	**(20.4)**	(20.3)
Retranslation	**–**	–	**3.9**	1.3	**3.9**	1.3
Present value of defined benefit obligations at 31 December	**397.3**	336.3	**23.9**	21.5	**421.2**	357.8

At 31 December 2016 the pensioner population accounted for 57% of the UK scheme's obligations and 56% of the USA schemes' obligations.

Reconciliation of the fair value of scheme assets

	UK (Company)		USA		Group	
	2016 £m	2015 £m	**2016 £m**	2015 £m	**2016 £m**	2015 £m
Fair value of scheme assets at 1 January	**346.9**	347.9	**14.9**	15.4	**361.8**	363.3
Interest income	**12.5**	11.9	**0.6**	0.5	**13.1**	12.4
Actuarial gains/(losses)						
– Return on scheme assets	**60.4**	5.2	**0.2**	(0.8)	**60.6**	4.4
Company contributions	**1.8**	1.8	**0.2**	0.1	**2.0**	1.9
Administration expenses	**(0.7)**	(0.7)	**(0.2)**	(0.2)	**(0.9)**	(0.9)
Benefit payments	**(19.0)**	(19.2)	**(1.4)**	(1.1)	**(20.4)**	(20.3)
Retranslation	**–**	–	**2.8**	1.0	**2.8**	1.0
Fair value of scheme assets at 31 December	**401.9**	346.9	**17.1**	14.9	**419.0**	361.8

Experience gains and losses for the year

	UK (Company)		USA		Group	
	2016 £m	2015 £m	**2016 £m**	2015 £m	**2016 £m**	2015 £m
Fair value of scheme assets	**401.9**	346.9	**17.1**	14.9	**419.0**	361.8
Defined benefit obligations	**(397.3)**	(336.3)	**(23.9)**	(21.5)	**(421.2)**	(357.8)
Net (liability)/asset	**4.6**	10.6	**(6.8)**	(6.6)	**(2.2)**	4.0
Actuarial gains/(losses) on scheme assets	**60.4**	5.2	**0.2**	(0.8)	**60.6**	4.4
Actuarial (losses)/gains on defined benefit obligations	**(67.9)**	18.8	**1.0**	1.4	**(66.9)**	20.2
Net (loss)/gain recognised in the SOCI during the year	**(7.5)**	24.0	**1.2**	0.6	**(6.3)**	24.6

Movements in the net liability/asset of defined benefit pension schemes recognised in the Statements of financial position

	UK (Company)		USA		Group	
	2016 £m	2015 £m	**2016 £m**	2015 £m	**2016 £m**	2015 £m
Net asset/(liability) for employee benefits at 1 January	**10.6**	(14.1)	**(6.6)**	(6.5)	**4.0**	(20.6)
Expense recognised in the income statement (see below)	**(0.3)**	(1.1)	**(0.5)**	(0.5)	**(0.8)**	(1.6)
Company contributions	**1.8**	1.8	**0.2**	0.1	**2.0**	1.9
Actuarial (losses)/gains recognised in the SOCI	**(7.5)**	24.0	**1.2**	0.6	**(6.3)**	24.6
Retranslation	**–**	–	**(1.1)**	(0.3)	**(1.1)**	(0.3)
Net (liability)/asset for employee benefits at 31 December	**4.6**	10.6	**(6.8)**	(6.6)	**(2.2)**	4.0

At the end of the life of the UK defined benefit pension scheme the Company has an unconditional right to a refund and any such refund would be paid out only on a net of tax basis.

Defined benefit pension schemes income/expense recognised in the Consolidated income statement

The income/expense is recognised in the following line items in the Consolidated income statement:

	UK (Company)		USA		Group	
	2016 £m	2015 £m	**2016 £m**	2015 £m	**2016 £m**	2015 £m
Administrative expenses	**0.7**	0.7	**0.2**	0.2	**0.9**	0.9
Financial (income)/expense	**(0.4)**	0.4	**0.3**	0.3	**(0.1)**	0.7
Net pension expense	**0.3**	1.1	**0.5**	0.5	**0.8**	1.6

The net pension expense is included in non-underlying items.

24. Employee benefits continued

Share-based payments

The Company currently operates a deferred share plan. Own shares are held in trust and granted to plan participants when certain conditions are met. Further details of the Deferred share plan, including the performance conditions and vesting periods, are in the Remuneration Committee report on pages 22 to 29 and in this note.

The share awards that were subject to conditional grants during the year were:

	At 1 January 2016	Granted	Lapsed	Exercised	At 31 December 2016
1 December 2012[a]	**86,800**	**–**	**–**	**(86,800)**	**–**
27 February 2013[b]	**99,200**	**–**	**(52,600)**	**(46,600)**	**–**
1 December 2013	**51,000**	**–**	**(9,600)**	**–**	**41,400**
27 February 2014	**89,600**	**–**	**(47,600)**	**–**	**42,000**
1 December 2014	**100,000**	**–**	**(11,800)**	**–**	**88,200**
1 April 2016	**–**	**145,400**	**(23,200)**	**–**	**122,200**
	426,600	**145,400**	**(144,800)**	**(133,400)**	**293,800**

[a] Exercised under Deferred share plan on 1 April 2016 at a market price of 50.0p.
[b] Exercised under Deferred share plan on 25 May 2016 at a market price of 59.5p.

Granting of all conditional awards and the exercise of such awards are at nil cost to the participant.

As at 31 December 2016 the shares awarded on 1 December 2013 were exercisable.

The share-based compensation charge for the year amounted to £nil (2015: £0.3m).

The fair value of the conditional awards made under the Deferred share plan has been based on the market price of the Company's shares at the date of grant, reduced by the assumptions made (for the purposes of this exercise) in respect of the present value of dividends expected to be paid (at the time of grant) during the vesting period. The fair value of each conditional award is as follows:

Date of award	Fair value per share
27 February 2013	154.5p
1 December 2013	180.0p
27 February 2014	169.0p
1 December 2014	64.0p
1 April 2016	46.0p

25. Capital and reserves

Share capital

Allotted, called up and fully paid	2016 £m	2015 £m
Ordinary shares of 25p each	**5.0**	5.0

There were 20,171,540 (2015: 20,171,540) ordinary shares in issue at the year end. The holders of the ordinary shares are entitled to one vote per share at meetings of the Company and to receive dividends as declared from time to time. At the year end an employee trust held 371,416 of the ordinary shares and it has agreed to waive all dividends and not to exercise voting rights in respect of these shares. The Company also has in issue 900,000 6% fixed cumulative preference shares of £1 each (see note 20); these are classified as borrowings.

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

Capital redemption reserve

The capital redemption reserve records the historical repurchase of the Company's own shares.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Investment in own shares

Included within retained earnings is the carrying value of own shares held in trust for the benefit of employees. These shares are used to service the obligations of the Company's Deferred share plan. Further details of the Deferred share plan can be found in the Remuneration Committee report on pages 22 to 29 and on page 66 in note 24.

At 31 December 2016 the employee trust held 371,416 (2015: 504,812) ordinary shares of 25p each, representing 1.8% of the issued shares (2015: 2.5%), 293,800 of which were subject to conditional grants. The shares held by the trust were purchased at an aggregate cost of £0.8m (2015: £0.8m). The trust purchased no additional shares in the year. In 2015 170,200 shares were purchased at a cost of £0.1m. The market value of the shares held by the trust at 31 December 2016 was £0.2m (2015: £0.4m).

Dividends

	2016 £m	2015 £m
Dividends to shareholders paid in the period:		
Final dividend for the year ended 31 December 2015 of 1.5p per ordinary share (2014: 3.0p)	**0.3**	0.6
Interim dividend for the year ended 31 December 2016 of 1.25p per ordinary share (2015: 2.5p)	**0.2**	0.5
	0.5	1.1

Having considered the trading results for 2016, together with the opportunities for investment in the growth of the Company, the Board has decided that it is appropriate not to pay a final dividend. An interim dividend of 1.25p was paid in October 2016, totalling £0.2m. Future dividend payments and the development of a new dividend policy will be considered by the Board in the context of 2017 trading performance and when the Board believes it is prudent to do so.

26. Financial risk management

The Group has exposure to credit, liquidity and market risks from its use of financial instruments.

These risks are regularly considered and the impact of these risks on the Group, and how to mitigate them, assessed. The Board of directors is responsible for the Group's system of internal controls and has established risk management policies to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The Audit Committee assists the Board in the discharge of its duty in relation to the maintenance of proper internal controls. Further details regarding the Audit Committee can be found in its report on pages 20 and 21.

Categories of financial instruments

	Group		Company	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Financial assets:				
Derivative instruments in designated hedge accounting relationships	**–**	–	**0.3**	0.4
Loans and receivables (including cash and cash equivalents)	**26.8**	22.7	**12.5**	13.8
	26.8	22.7	**12.8**	14.2
Financial liabilities:				
Derivative instruments in designated hedge accounting relationships	**0.3**	0.5	**0.3**	0.3
Amortised cost	**33.8**	32.0	**29.9**	31.5
	34.1	32.5	**30.2**	31.8

Amortised cost comprises interest-bearing loans and borrowings and trade and other payables, excluding foreign currency derivatives.

IFRS 7 *Financial instruments: disclosures* for financial instruments that are measured in the Statements of financial position at fair value requires disclosure of fair value measurements in the form of a three level fair value hierarchy, by class, for all financial instruments recognised at fair value. The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

At 1 January 2016 and 31 December 2016 the Group held all financial instruments at Level 2.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers and cash held at financial institutions. In addition, for the Company, a credit risk exists in respect of amounts owed by Group undertakings.

Trade receivables

The Group ensures that the provision of credit to customers is adequately managed by each individual business in order that the risk of non-payment or delayed payment is minimised. The Group's exposure to risk is influenced mainly by the individual characteristics of each customer, the industry and country in which customers operate. The Group has a relatively diversified base of customers and the customer that accounts for the largest proportion of sales, excluding one-off projects, is routinely responsible for no more than 5% of total sales in any year. In certain years sales to a customer may be more than 5%, although the sales would typically be to a number of different geographic regions.

The Group has written credit control policies which cover procedures for accepting new customers, setting credit limits, dealing with overdue amounts and delinquent payers.

An impairment loss provision against trade receivables is created where it is anticipated that the value of trade receivables is not fully recoverable.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk for the Group and the Company at 31 December was:

	Group		Company	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Trade receivables	**17.8**	12.3	**7.8**	5.3
Amounts owed by Group undertakings	**–**	–	**2.0**	2.1
Foreign currency derivatives	**–**	–	**0.3**	0.4
Cash and cash equivalents	**9.0**	10.4	**2.7**	6.4
	26.8	22.7	**12.8**	14.2

The maximum exposure to credit risk for trade receivables at 31 December by business segment was:

	Group		Company	
Operating segments	**2016 £m**	2015 £m	**2016 £m**	2015 £m
Packaging Machinery	**9.1**	5.0	**2.0**	0.4
Instrumentation & Tobacco Machinery	**8.7**	7.3	**5.8**	4.9
	17.8	12.3	**7.8**	5.3

26. Financial risk management continued

Credit risk continued

Impairment loss provisions

The ageing of trade receivables and the impairment loss provisions for the Group and the Company at 31 December were:

	2016			2015		
Group	Gross £m	Impairment loss provisions £m	Total £m	Gross £m	Impairment loss provisions £m	Total £m
Not past due	15.5	–	15.5	8.8	–	8.8
Past due up to 30 days	1.3	–	1.3	2.2	–	2.2
Past due 31–60 days	0.5	–	0.5	0.5	–	0.5
Past due 61–90 days	0.3	–	0.3	0.2	–	0.2
Past due more than 91 days	0.3	(0.1)	0.2	0.7	(0.1)	0.6
	17.9	(0.1)	17.8	12.4	(0.1)	12.3

	2016			2015		
Company	Gross £m	Impairment loss provisions £m	Total £m	Gross £m	Impairment loss provisions £m	Total £m
Not past due	6.8	–	6.8	4.0	–	4.0
Past due up to 30 days	0.5	–	0.5	0.7	–	0.7
Past due 31–60 days	0.4	–	0.4	0.2	–	0.2
Past due 61–90 days	0.1	–	0.1	0.1	–	0.1
Past due more than 91 days	0.1	(0.1)	–	0.3	–	0.3
	7.9	(0.1)	7.8	5.3	–	5.3

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's approach to managing liquidity is to hold cash and cash equivalents and maintain undrawn committed facilities at a level sufficient to ensure that the Group has available funds to meet its liabilities as they become due. Further details of the Group's treasury policies can be found in the Financial review on pages 12 and 13.

Contractual maturities of non-derivative financial liabilities

The non-derivative financial liabilities for the Group and the Company at 31 December were:

	Group		Company	
	2016 £m	2015 £m	2016 £m	2015 £m
Current liabilities:				
Trade and other payables (excluding derivatives)	25.6	18.4	22.0	18.5
Non-current liabilities:				
Interest-bearing loans and borrowings	7.9	13.0	7.9	13.0

The maturities of the Interest-bearing loans and borrowings are disclosed in note 20. Further details relating to the committed borrowing facilities of the Group can be found in the Financial review on pages 12 and 13.

Trade and other payables shown as current liabilities are expected to mature within six months of the statement of financial position date.

The contractual maturities of forward foreign exchange contracts that the Group and Company had committed at 31 December are shown in the Foreign currency risk section in this note.

Market risk

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates, will affect the Group's income or the value of its holdings of financial instruments. Exposure to interest rate and currency risks arises in the normal course of the Group's business. The Group does not trade in financial instruments and enters into derivatives (principally forward foreign exchange contracts) solely for the purpose of minimising currency exposure on sales or purchases in other than the functional currencies of its various operations.

The Group's treasury policies are explained in the Financial review on pages 12 and 13.

Interest rate risk

Cash and cash equivalents

The cash profile at 31 December was:

	2016			2015		
Group	Cash at floating rates £m	Cash on which no interest received £m	Total £m	Cash at floating rates £m	Cash on which no interest received £m	Total £m
Currency:						
Sterling	2.7	0.5	3.2	7.1	0.3	7.4
Canadian dollar	0.4	–	0.4	0.3	–	0.3
US dollar	0.1	0.6	0.7	(0.4)	0.9	0.5
Euro	3.0	0.3	3.3	1.0	0.1	1.1
Czech koruna	(0.3)	–	(0.3)	(0.6)	–	(0.6)
Brazilian real	1.3	–	1.3	0.8	–	0.8
Singapore dollar	–	–	–	–	0.1	0.1
Chinese yuan	–	0.1	0.1	0.2	–	0.2
	7.2	1.5	8.7	8.4	1.4	9.8

	2016			2015		
Company	Cash at floating rates £m	Cash on which no interest received £m	Total £m	Cash at floating rates £m	Cash on which no interest received £m	Total £m
Currency:						
Sterling	2.7	–	2.7	6.9	–	6.9
Canadian dollar	–	–	–	(0.1)	–	(0.1)
US dollar	(0.2)	–	(0.2)	(0.6)	–	(0.6)
Euro	0.2	–	0.2	0.2	–	0.2
	2.7	–	2.7	6.4	–	6.4

Interest rates are based on London Interbank Bid Rate (LIBID) and relevant national equivalents. All cash surplus to immediate operational requirements is placed on deposit at floating rates of interest.

26. Financial risk management continued

Interest rate risk continued

Interest-bearing loans and borrowings

The profile of interest-bearing loans and borrowings at 31 December was:

Group and Company	2016 Borrowings at floating rates £m	2016 Borrowings at fixed rates £m	2016 Total £m	2015 Borrowings at floating rates £m	2015 Borrowings at fixed rates £m	2015 Total £m
Currency:						
Sterling	7.0	0.9	7.9	12.0	0.9	12.9
Czech koruna	–	–	–	0.1	–	0.1
	7.0	0.9	7.9	12.1	0.9	13.0

The borrowings at fixed rates in sterling are the fixed cumulative preference shares which are explained in more detail in note 20.

The floating rate borrowings are based on interest rates at UK base rate, UK London Interbank Offered Rate (LIBOR) and relevant national equivalents.

Sensitivity to interest rate risk

If interest rates had been 100 basis points higher/lower throughout the period, net financial expense (excluding on pension scheme balances) for the Group would have increased/decreased by £0.1m (2015: £0.1m). This analysis assumes that all other variables, in particular foreign currency rates, remain constant and considers the effect of financial instruments with variable interest rates. The analysis is performed on the same basis as for the year ended 31 December 2015.

Foreign currency risk

The majority of the Group's operations are outside of the UK, and therefore a significant portion of its business is conducted overseas in currencies other than sterling. As explained on page 14, foreign currency risk is one of the principal risks and uncertainties to which the Group is exposed. The Group is exposed to both transaction and translation risk.

Transactions in foreign currency are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

The revenues and expenses of foreign operations are translated at an average rate for the period.

The assets and liabilities of foreign operations are translated at foreign exchange rates ruling at the statement of financial position date and foreign exchange differences are taken directly to the translation reserve.

The following exchange rates (relative to sterling), which are significant to the Group, applied during the period:

	Average rate 2016	Average rate 2015	Closing rate 2016	Closing rate 2015
US dollar	1.36	1.53	1.24	1.48
Canadian dollar	1.80	1.95	1.66	2.06
Euro	1.23	1.38	1.17	1.36
Czech koruna	33.26	37.50	31.59	36.82
Brazilian real	4.78	5.09	4.04	5.79

Forward foreign exchange contracts

The Group enters into forward foreign exchange contracts solely for the purpose of minimising currency exposures on sale and purchase transactions. The Group classifies its forward foreign exchange contracts used for hedging as cash flow hedges and states them at fair value.

Fair values

The fair value of forward foreign exchange contracts at 31 December was:

	Group		Company	
Cash flow hedges	**2016 £m**	2015 £m	**2016 £m**	2015 £m
Gain	**0.1**	0.1	**–**	0.1
Loss	**(0.3)**	(1.1)	**(0.1)**	(0.7)
	(0.2)	(1.0)	**(0.1)**	(0.6)

The fair value is the gain/loss on all open forward foreign exchange contracts at the period end. These amounts are based on the market values of equivalent instruments at the period end date and all relate to those forward foreign exchange contracts that have been designated as effective cash flow hedges under IAS 39 *Financial instruments: recognition and measurement*.

There were no open forward foreign exchange contracts, as at either 31 December 2016 or 2015, that had been designated as fair value hedges under IAS 39 *Financial instruments: recognition and measurement*.

During the period a credit of £0.7m for the Group (2015: £0.1m charge) and £0.6m for the Company (2015: £nil) was recognised in the Statements of comprehensive income in respect of cash flow hedges.

Contractual maturity date and future cash flows

The contractual maturity date and period when cash flows are expected to occur in relation to open forward foreign exchange contracts at 31 December were:

	2016				2015		
Group	**Less than six months £m**	**Between six and twelve months £m**	**Between twelve and twenty-four months £m**	**Total £m**	Less than six months £m	Between six and twelve months £m	Total £m
Outflow	**(2.3)**	**(0.3)**	**–**	**(2.6)**	(4.1)	(0.4)	(4.5)
Inflow	**9.4**	**4.8**	**0.3**	**14.5**	4.7	0.3	5.0
	7.1	**4.5**	**0.3**	**11.9**	0.6	(0.1)	0.5

	2016				2015		
Company	**Less than six months £m**	**Between six and twelve months £m**	**Between twelve and twenty-four months £m**	**Total £m**	Less than six months £m	Between six and twelve months £m	Total £m
Outflow	**(9.1)**	**(3.9)**	**–**	**(13.0)**	(7.6)	(0.7)	(8.3)
Inflow	**9.4**	**5.0**	**0.3**	**14.7**	4.9	0.3	5.2
	0.3	**1.1**	**0.3**	**1.7**	(2.7)	(0.4)	(3.1)

26. Financial risk management continued

Foreign currency risk continued

Currency profile

The currency profiles at 31 December of Cash and cash equivalents and Interest-bearing loans and borrowings are shown within the interest rate risk section in this note.

The main functional currency of the Group is sterling. The following analysis of financial assets and liabilities (excluding net funds/debt) shows the Group and Company exposure after the effects of forward foreign exchange contracts used to manage currency exposure.

The amounts shown represent the transactional exposures that give rise to net currency gains and losses which are recognised in the Consolidated income statement. Such exposures represent the financial assets and liabilities of the Group and the Company that are not denominated in the functional currency of the business involved.

	2016				2015			
Group	US dollar £m	Euro £m	Singapore dollar £m	Total £m	US dollar £m	Euro £m	Singapore dollar £m	Total £m
Functional currency:								
Sterling	0.3	0.3	–	0.6	–	0.1	(0.3)	(0.2)
Canadian dollar	0.6	–	–	0.6	0.1	0.1	–	0.2
Czech koruna	0.1	–	–	0.1	–	–	–	–
Brazilian real	(0.1)	–	–	(0.1)	0.1	–	–	0.1
	0.9	0.3	–	1.2	0.2	0.2	(0.3)	0.1

	2016			2015		
Company	US dollar £m	Euro £m	Total £m	US dollar £m	Euro £m	Total £m
Functional currency:						
Sterling	0.3	0.4	0.7	(0.1)	–	(0.1)

Sensitivity to foreign currency risk

Average exchange rates are used to translate the profits of foreign operations in the Consolidated income statement. If sterling had been 10% stronger/weaker against all foreign currencies during the year, the effect of this on the average exchange rates used to translate profits would have increased/decreased Group profit for the year by £0.1m (2015: £0.2m).

If sterling had been 10% stronger against all foreign currencies at 31 December 2016, Group equity would have reduced by £0.8m (2015: £0.8m). Conversely, if sterling had been 10% weaker against all foreign currencies at 31 December 2015, Group equity would have increased by £0.9m (2015: £1.0m). This analysis assumes that all other variables remain constant.

Fair values
The fair value of borrowings at fixed rates for both the Group and the Company at 31 December 2016 is £0.8m (2015: £0.8m) and has been calculated by discounting the expected future cash flows at prevailing interest rates.

There are no other significant differences between book and fair values for any of the other financial assets or liabilities included in either the Group or Company Statement of financial position.

Capital management
Capital comprises total equity as shown in the Statements of financial position. The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business. The Group manages its capital structure and makes adjustments to it in light of the economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The Group monitors capital through measures of earnings per share (see note 11), return on capital employed (profit for the period divided by average equity) and tangible net worth (total equity before intangible assets and employee benefits, net of tax). There were no changes to the Group's approach to capital management during the year and neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

27. Operating leases
Non-cancellable operating lease rentals are payable as follows:

	Group		Company	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Less than one year	**1.2**	1.2	**0.6**	0.6
Between one and five years	**2.5**	2.8	**1.6**	1.7
More than five years	**0.4**	0.7	**0.4**	0.7
	4.1	4.7	**2.6**	3.0

The Group leases a number of manufacturing and service facilities under operating leases. The lease terms have the option to renew at the end of the lease term. During the year £1.3m was recognised as an expense in the Consolidated income statement in respect of operating leases of the continuing operations (2015: £1.3m). In addition, £0.2m (2015: £0.1m) was recognised as an expense in the Consolidated income statement in respect of operating leases of the discontinued operations.

28. Capital commitments

	Group		Company	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Capital investment contracted but not provided for	**0.1**	0.1	**–**	–

29. Contingent liabilities

	Group		Company	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Contingent liabilities in respect of guarantees and indemnities related to sales and other contracts	**3.4**	1.8	**3.3**	1.7

30. Discontinued operations

On 31 May 2015 the Group sold the trade and assets of Arista Laboratories, Inc. The table below shows the results of the discontinued operations included in the Group's Consolidated income statement and the Group's Statement of cash flow.

Income statement	2016 £m	2015 £m
Revenue from trading activities	–	0.7
Costs from trading activities	–	(1.6)
Operating loss from trading activities	–	(0.9)
Proceeds from disposal	–	0.3
Costs incurred on disposal	–	(0.4)
Loss on disposal of net assets	–	(3.5)
Impairment of goodwill	–	(1.3)
Loss before and after tax	–	(5.8)

Cash flow	2016 £m	2015 £m
Operating activities		
Operating loss	–	(0.9)
Depreciation	–	0.2
Net movements in working capital	(0.2)	0.2
Cash used in operations before reorganisation	(0.2)	(0.5)
Reorganisation costs paid	–	(0.7)
Cash flows from operating activities	(0.2)	(1.2)
Investing activities		
Cash flows from investing activities – net proceeds on disposal	–	0.2
Net decrease in cash and cash equivalents	(0.2)	(1.0)

Included within the Group's Statement of financial position at 31 December 2016 is a provision of £nil (2015: £0.2m) in respect of discontinued operations.

In 2015 the loss per ordinary share and diluted loss per ordinary share from discontinued operations was 29.8p.

31. Related parties

Identity of related parties

The Company has a related party relationship with its subsidiaries (see note 32), directors and the UK and USA defined benefit pension schemes. In the course of normal operations, related party transactions entered into by the Group have been contracted on an arm's-length basis.

Details regarding transactions involving the directors and their remuneration can be found in the Remuneration report on pages 22 to 29.

The Group recharges the UK defined benefit pension scheme with the costs of administration incurred by the Group.

The total amount recharged in the year to 31 December 2016 was £0.2m (2015: £0.2m).

At 31 December 2016 there were no outstanding balances with related parties.

32. Group entities

All intra-group related party transactions and outstanding balances are eliminated in the preparation of the Consolidated financial statements of the Group and therefore in accordance with IAS 24 *Related party disclosures* are not disclosed.

Subsidiary undertakings

Details of all subsidiary undertakings are shown below and principal subsidiary undertakings are shown on page 80. Subsidiary undertakings are, unless otherwise shown in brackets below, registered in England and Wales. Unless otherwise specified below, all subsidiaries are 100% owned by the Company.

Principal subsidiary undertakings		
Cerulean Corporation (USA)	Langenpac BV (Netherlands)	Molins sro (Czech Republic)
Cerulean Shanghai Company Limited (China)	Molins do Brasil Maquinas Automaticas Ltda (Brazil)	
Langen Packaging Inc (Canada)	Molins Richmond, Inc (USA)	
Subsidiary undertakings registered at Molins PLC Registered Office		
Arista Laboratories Europe Limited	Molins Machine Company Limited	Molmac Engineering Limited
Hartsvale Limited	Molins Machinery Limited	Thrissell Limited
Molins Corporate Services Limited	Molins Overseas Holdings Limited	
Molins ITCM Limited	Molins Tobacco Machinery Limited	
Overseas subsidiary undertakings		
Registered office	**Subsidiary undertakings**	
6154 Kestrel Road, Mississauga, Ontario L5T 1Z2, Canada	1456074 Ontario Inc (Canada)	
Glockengiesserwall 26, 20095 Hamburg	Cerulean GmbH (Germany)	
1470 East Parham Road, Richmond, Virginia 23228-2300, USA	ITCM North America Inc (USA) Molins Delaware, Inc (USA) Molins Laboratories, Inc (USA) Molins Machine Company, Inc (USA) SASIB Corporation of America (USA)	
Rozanova str 10/1, Moscow 123007, Russia	Molins Tobacco CIS (69% owned by Molins PLC) (Russia)	

During the year ended 31 December 2016 the Company made sales of £5.6m (2015: £7.3m) and purchased goods totalling £5.3m (2015: £3.9m) to and from other Group undertakings.

During the year ended 31 December 2016 the Company received interest income from subsidiary undertakings of £nil (2015: £0.1m) and management fees of £0.6m (2015: £0.6m).

At 31 December 2016 amounts owed by subsidiary undertakings to the Company were £2.0m (2015: £2.1m) and amounts owed by the Company to subsidiary undertakings were £10.2m (2015: £8.9m). The amounts owed by subsidiary undertakings to the Company are stated after a provision of £10.5m (2015: £8.8m) representing amounts owed to the Company which are no longer considered recoverable.

At 31 December 2016 investments in subsidiaries by the Company were £50.6m (2015: £50.6m).

33. Accounting estimates and judgements

The development, selection and disclosure of the Group's critical accounting policies and estimates, and the application of these policies and estimates, are considered as part of the remit of the Audit Committee.

Pension accounting

Changes to key assumptions used for calculating the net pension asset/liability of the Group can have a significant impact on the accounting valuation of the Group's defined benefit pension schemes. The key assumptions used in calculating the net pension asset/liability for the Group are disclosed in note 24. The value of the schemes' liabilities is particularly sensitive to the discount, inflation and mortality rates used. An analysis of the impact on the net pension asset/liability to changes in these assumptions is also disclosed in note 24.

Goodwill impairment

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units (CGUs) to which the goodwill relates. The value in use calculation requires the Group to estimate the future cash flows expected to arise from each CGU and to determine a suitable discount rate to calculate the present value. The carrying value of goodwill at 31 December 2016 was £7.8m.

Investment impairment

Determining whether the Company's investments in subsidiaries are impaired requires an estimation of the value in use of the CGUs to which the investments relate. The value in use calculation requires the Company to estimate the future cash flows expected to arise from each CGU and to determine a suitable discount rate to calculate the present value. The carrying value of investments in subsidiaries by the Company at 31 December 2016 was £50.6m and there has been no impairment of investments in subsidiaries during the period.

Provisions

The Group assesses the carrying value of both receivable balances and inventory balances based on past losses, current trading patterns and anticipated future events. Provisions for expected future cash flows are made based upon past experience and management's assessment of the likely outflow, after taking professional advice where appropriate.

Construction contracts

The timing of revenue recognition on construction contracts is based on the assessed stage of completion of contract activity at the statement of financial position date. The assessed stage of completion is based on an estimate of the labour costs expended on each contract at the statement of financial position date as a proportion of estimated total labour costs on each contract.

Five year record

	2016 £m	2015 £m	2014 £m	2013 £m	2012 £m
Revenue[1]	**80.1**	87.0	87.4	102.1	88.4
Underlying operating profit[2]	**1.1**	4.0	5.4	8.1	6.1
Non-underlying items	**(1.7)**	(1.1)	(1.2)	(0.9)	(0.3)
Operating (loss)/profit	**(0.6)**	2.9	4.2	7.2	5.8
Net financing expense	**(0.1)**	(0.9)	(0.3)	(0.8)	(0.1)
(Loss)/profit before tax	**(0.7)**	2.0	3.9	6.4	5.7
Taxation	**0.1**	(0.3)	(0.6)	(0.3)	(0.7)
(Loss)/profit for the period from continuing operations	**(0.6)**	1.7	3.3	6.1	5.0
Loss for the period from discontinued operations	**–**	(5.8)	(3.6)	(2.6)	(1.2)
(Loss)/profit for the period	**(0.6)**	(4.1)	(0.3)	3.5	3.8
Underlying operating return on sales[2]	**1.4%**	4.6%	6.2%	7.9%	6.9%
Underlying earnings per ordinary share[2]	**3.7p**	15.1p	22.4p	37.5p	28.0p
Basic (loss)/earnings per ordinary share	**(3.3)p**	(20.9)p	(1.3)p	18.0p	20.6p
Dividends per ordinary share in respect of the year	**1.25p**	4.0p	5.5p	5.5p	5.5p
Intangible assets	**15.2**	14.9	15.7	15.2	14.5
Property, plant and equipment and investment property	**9.3**	8.8	12.1	12.0	11.7
Inventories	**13.0**	15.1	18.5	18.5	18.1
Trade and other receivables (including taxation)	**29.3**	22.1	32.6	27.5	29.3
Employee benefits	**(2.2)**	4.0	(20.6)	(5.6)	(19.2)
Trade and other payables (including taxation and provisions)	**(30.0)**	(25.1)	(30.3)	(32.3)	(31.3)
	34.6	39.8	28.0	35.3	23.1
Net funds/(debt)	**0.8**	(3.2)	(2.1)	5.2	7.4
Net assets	**35.4**	36.6	25.9	40.5	30.5
Net assets per ordinary share	**176p**	181p	128p	201p	151p
Ordinary shares in issue (000's)	**20,172**	20,172	20,172	20,172	20,172

[1] From continuing operations.
[2] Before non-underlying items and discontinued operations.

Principal divisions and subsidiaries

The divisions and subsidiary undertakings shown include those which principally affect the profits and net assets of the Group as at the date of this report. Overseas companies operate and are incorporated in the countries in which they are based. In all cases the class of shares held is ordinary equity shares (or equivalent) and the proportion held is 100% unless otherwise indicated. Shares in the UK and Czech Republic companies are held directly by Molins PLC and those in the other overseas subsidiaries by intermediate holding companies.

A full list of subsidiaries will be included in the next annual return filed at Companies House and are shown on page 77.

Americas

Langen Packaging Inc

6154 Kestrel Road, Mississauga,
Ontario L5T 1Z2, Canada

Tel: +1 905 670 7200
E-mail: info@langengroup.com

Cerulean Corporation

1470 East Parham Road,
Richmond,
Virginia 23228-2300, USA

Tel: +1 804 887 2525
E-mail: info@cerulean.com

Molins Do Brasil Maquinas Automaticas Ltda

Rua Roberto Ozorio de Almeda,
1010 Modulo, 13 CIC, Curitiba
CEP 81.460.110, Brazil

Tel: +55 41 3227 8300
E-mail: molins.brazil@molins.com.br

Molins Richmond Inc

1470 East Parham Road, Richmond,
Virginia 23228-2300, USA

Tel: +1 804 887 2525
E-mail: molins.richmond@molins.com

Europe, Middle East & Africa

Langenpac BV

Edisonstraat 14, 6604 BV
Wijchen, The Netherlands

Tel: +31 24 648 6655
E-mail: info@langengroup.com

Molins Technologies

13 Westwood Way, Westwood Business
Park, Coventry CV4 8HS, UK

Tel: +44 (0)2476 421100
E-mail: info@molinstechnologies.com

Cerulean

Rockingham Drive, Linford Wood East,
Milton Keynes MK14 6LY, UK

Tel: +44 (0)1908 233833
E-mail: info@cerulean.com

Molins Tobacco Machinery

Unit A1, Regent Park, Summerleys Road,
Princes Risborough, HP27 9LE, UK

Tel: +44 (0)1844 276600
E-mail: mtm@molins.com

Molins sro

Korandova 12, 301 00 Plzen,
Czech Republic

Tel: +420 378 080 111
E-mail: info@molins.cz

Asia Pacific

Langen Asia

5 Pereira Road,
05–04 Asiawide Building,
Singapore 368025

Tel: +65 6289 3788
E-mail: info@langengroup.com

Cerulean Shanghai Co Ltd

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Chuan Mansion
No. 450 Cao Yang Road, Shanghai
200063, Peoples Republic of China

Tel: +86 21 6125 3288
E-mail: info@cerulean.com

Molins Far East Pte Ltd

5 Pereira Road,
05–04 Asiawide Building,
Singapore 368025

Tel: +65 6289 3788
E-mail: mfe@molins.com

Notice of meeting

The one hundred and fifth Annual General Meeting (the Meeting) of Molins PLC will be held at Rockingham Drive, Linford Wood East, Milton Keynes MK14 6LY on Thursday 20 April 2017 at 12 noon for the following purposes:

As ordinary business

To consider and, if thought fit, to pass the following resolutions as ordinary resolutions:

1. To receive the Annual Report and Accounts 2016 now laid before the Meeting. (*Resolution 1*)

2. To re-appoint Mr J L Davies as a director. (*Resolution 2*)

3. To re-appoint Dr A Steels as a director. (*Resolution 3)*

4. To re-appoint Mr A Kitchingman as a director. (*Resolution 4*)

5. To re-appoint KPMG LLP as auditors and to authorise the directors to determine their remuneration. (*Resolution 5*)

6. To approve the Remuneration report set out on pages 23 to 25 in the Annual Report and Accounts 2016. (*Resolution 6)*

7. To approve the Remuneration policy set out on pages 25 to 29 in the Annual Report and Accounts 2016, which shall take effect from the close of the Meeting. (*Resolution 7*)

As special business

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

8. Power to allot securities

   That, in substitution for all existing authorities, the directors be and are hereby generally and unconditionally authorised to exercise all powers of the Company to allot relevant securities (within the meaning of section 551 of the Companies Act 2006) up to an aggregate nominal value of £1,512,865 (representing 30% of the total ordinary share capital in issue at 2 March 2017) provided that this authority shall expire on the day 15 months following the passing of this resolution save that the Company may, before such expiry, make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired. (*Resolution 8*)

To consider and, if thought fit, to pass the following resolutions as special resolutions:

9. Disapplication of pre-emption rights

   That the directors be and are hereby empowered pursuant to section 570 and section 573 of the Companies Act 2006 (the Act) to allot equity securities for cash, pursuant to the general authority conferred upon them by the resolution passed under item number 8 in the notice of the Annual General Meeting of the Company, for the period ending on the date of the next Annual General Meeting following the passing of this resolution or at the end of 15 months following the passing of this resolution, whichever is the earlier (unless previously revoked or varied) as if section 561 of the Act did not apply to any such allotment and so that the power conferred by this resolution shall enable the Company to make any offer or agreement before the expiry of this power (unless previously revoked or varied by the Company in general meeting), which would or might require equity securities to be allotted after such expiry and so that notwithstanding such expiry the directors may allot equity securities pursuant to any such offer or agreement previously made by the Company as if the power conferred hereby had not expired PROVIDED however that the power conferred by this resolution shall be limited:

   a) to the allotment of equity securities in connection with or pursuant to any arrangement whereby the holders of ordinary shares at a record date or dates adopted for the purposes of the arrangement are entitled to acquire any equity securities of the Company issued for cash pursuant to such arrangement, in the proportion (as nearly as may be) to such holders' holdings of shares (or, as appropriate, to the numbers of ordinary shares which such holders are for the purpose deemed to hold) subject to such exclusions or other arrangements as the directors may consider necessary or expedient to deal with fractional entitlements or legal or practical problems under or resulting from the application of the laws of any territory or the requirements of any recognised regulatory body or stock exchange in any territory; and

   b) to the allotment (otherwise than pursuant to sub-paragraph a above) of equity securities having an aggregate nominal value not exceeding £504,288.50 (representing 10% of the total ordinary share capital in issue as at 2 March 2017).

Words and expressions defined in or for the purposes of the Act shall bear the same meanings in this resolution. (*Resolution 9*)

10. Purchase of own shares

    That the directors be empowered in the terms of Article 11 of the Company's Articles of Association and pursuant to section 701 of the Companies Act 2006 to make market purchases (as defined in section 693(4) of that Act) of ordinary shares of 25p each in the capital of the Company on such terms and in such manner as the directors may from time to time determine, provided that:

    a) the maximum aggregate number of shares which may be so purchased shall be 3,000,000 ordinary shares (representing approximately 15% of the Company's issued ordinary share capital at the date of the Notice convening the Meeting at which this resolution is to be proposed);

    b) the maximum price (excluding expenses) which may be paid for an ordinary share shall be an amount equal to 105% of the average middle market quotations taken from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the shares in question are to be purchased;

    c) the minimum price which may be paid for an ordinary share shall be 25p (exclusive of expenses); and

    d) this authority shall expire, unless previously revoked or varied, at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or twelve months from the date of the resolution (whichever is the earlier) provided that the Company may before this authority expires make contracts for purchases of ordinary shares under this authority which would or might be executed wholly or partly after this authority expires and may make a purchase of ordinary shares pursuant to any such contract. (*Resolution 10*)

11. Authority to hold general meetings (other than annual general meetings) on 14 clear days' notice.

    That a General Meeting of the Company, other than annual general meetings of the Company, may be called on not less than 14 clear days' notice. (*Resolution 11*)

By order of the Board

Nick Eland
Secretary
2 March 2017

Notes relating to the Notice

Entitlement to attend and vote

1. Only those members registered on the Company's Register of Members 48 hours prior to the time of the Annual General Meeting (the Meeting) or, if this Meeting is adjourned, 48 hours prior to the time of the adjourned Meeting shall be entitled to attend and vote at the Meeting.

Website giving information regarding the meeting

2. A copy of this Notice of Meeting (the Notice) and other information required by section 311A of the Companies Act 2006 (the Act) is available online at www.molins.com.

Appointment of proxies

3. Members of the Company are entitled to appoint a proxy to exercise all or any of their rights to attend, speak and vote at the Meeting using the proxy form accompanying this Notice. The person appointed proxy does not need to be a member of the Company but must attend the Meeting to represent the member. The Chairman of the meeting or another person may be appointed as proxy. Members wishing their proxy to speak on their behalf at the Meeting will need to appoint their own choice of proxy (not the Chairman) and give instructions directly to them. Members can only appoint a proxy using the procedures set out in this Notice and the notes to the proxy form. The appointment of a proxy does not preclude a shareholder from attending and voting in person at the Meeting. More than one proxy may be appointed provided each proxy is appointed to exercise rights attached to different shares. More than one proxy to exercise rights attached to any one share may not be appointed. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's Register of Members in respect of the joint holding (the first-named being the most senior).

   The notes to the proxy form explain how to direct the proxy to vote on each resolution or withhold their vote. The manner in which the proxy(ies) is/are to vote should be indicated by marking either 'Vote for' or 'Vote against' or 'Vote withheld'. If none is marked, the proxy(ies) will vote or abstain at his/her/their discretion. A 'Vote withheld' option is provided on the proxy form to enable instructions to be given to a proxy not to vote on any particular resolution. It should, however, be noted that a vote withheld is not a vote in law and therefore will not be counted in the calculation of the proportion of the votes 'For' and 'Against' a resolution.

4. Those that are not members of the Company but who have been nominated by a member of the Company under section 146 of the Act to enjoy information rights, do not have a right to appoint any proxies under the procedures set out herein or in the proxy form. They may have a right under an agreement with the member of the Company who has nominated them (Relevant Member) to be appointed or to have someone else appointed as a proxy for the Meeting. If they either do not have such a right or if they have such a right but do not wish to exercise it, they may have a right under an agreement with the Relevant Member to give instructions to the Relevant Member as to the exercise of voting rights. The main point of contact in terms of their investment in the Company is the Relevant Member and they should contact them (and not the Company) regarding their interest in the Company.

Appointment of proxy using hard copy proxy form

5. To appoint a proxy using the proxy form, the form must be:

   a) completed and signed;

   b) sent or delivered to the Company's registrars at PXS 1, 34 Beckenham Road, Beckenham, Kent BR3 4ZF; and

   c) received by the Company's registrars not less than 48 hours before the time appointed for holding the Meeting or adjourned Meeting at which the person named in the proxy form proposes to vote.

   In the case of a member which is a company, the proxy form must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the proxy form is signed (or a notarised copy of such power or authority or a copy of such power and written authority certified in accordance with the Powers of Attorney Act 1971) must be included with the proxy form. In the case of a poll taken more than 48 hours after it is demanded, the proxy document(s) must be delivered as aforesaid not less than 24 hours before the time appointed for taking the poll, and where the poll is taken less than 48 hours after it was demanded, the proxy documents must either be delivered at the meeting at which the demand is made, or at the proxy notification address not less than 48 hours before the time appointed for holding the meeting or adjourned meeting, or otherwise as the Chairman of the meeting at which a poll is demanded may direct.

Notes relating to the Notice continued

Appointment of proxy using email

6. As an alternative to submitting the hard copy proxy form by hand or by post, a proxy may be appointed electronically by emailing a copy of the signed hard copy proxy form and any accompanying documents to agm@molinsplc.com with details of the full name and address of the registered shareholder. For an electronic proxy appointment to be valid it must be delivered not less than 48 hours before the time appointed for holding the Meeting or adjourned Meeting at which the person named in the proxy form proposes to vote. Please refer to note 5 for details as to when proxy notices appointing a proxy in the event of a poll are to be delivered.

Changing proxy instructions

7. To change proxy instructions simply submit a new proxy form using the methods set out above. Note that the cut-off times for receipt of proxy forms (see note 5) also apply in relation to amended instructions; any amended proxy form received after the relevant cut-off time will be disregarded. Where another hard copy proxy form is required please contact the Company (see note 17). If a member submits more than one valid proxy form, the form received last before the latest time for the receipt of proxies will take precedence.

Termination of proxy appointments

8. To revoke a proxy instruction the Company must be informed by either:

    a) sending a signed hard copy notice clearly stating the intention to revoke the proxy appointment to the Company's registrars at PXS 1, 34 Beckenham Road, Beckenham, Kent BR3 4ZF; or

    b) sending an email clearly stating the registered shareholder's name and address and the intention to revoke the previous proxy appointment to agm@molinsplc.com.

    In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company (any power of attorney or any other authority under which the revocation notice is signed (or a notarised copy of such power or authority or a copy of such power and written authority certified in accordance with the Powers of Attorney Act 1971) must be included with the revocation notice).

    The revocation notice must be received by the Company's registrars or delivered to agm@molinsplc.com (as the case may be) no later than six hours before the time fixed for holding the relevant meeting or adjourned meeting or, in the case of a poll not taken on the same day as the meeting or adjourned meeting, before the time fixed for taking the poll.

    If the revocation is received after the time specified then the original proxy appointment will remain valid.

Corporate representatives

9. A corporation which is a member can appoint one or more corporate representatives who may exercise, on its behalf, all its powers as a member provided that no more than one corporate representative exercises powers over the same share. Representatives will be required to produce documentary evidence of their appointment.

Issued shares and total voting rights

10. As at the close of business on 1 March 2017 (being the last business day prior to publication of this notice), the Company's issued share capital comprised 20,171,540 ordinary shares of 25p each. Each ordinary share carries the right to one vote at a general meeting of the Company and, therefore, the total number of voting rights in the Company at that time was 20,171,540.

Questions at the meeting

11. Under section 319A of the Act, the Company must answer any question asked at the Meeting relating to the business being dealt with at the Meeting unless:

    a) answering the question would interfere unduly with the preparation for the Meeting or involve the disclosure of confidential information;

    b) the answer has already been given on a website in the form of an answer to a question; or

    c) it is undesirable in the interests of the Company or the good order of the Meeting that the question be answered.

Members' right to require circulation of resolution to be proposed at the meeting

12. Under section 338 of the Act, a member or members meeting the qualification criteria set out at note 14, may, subject to conditions, require the Company to give its members notice of a resolution which may properly be moved and is intended to be moved at that Meeting. The conditions are that:

    a) the resolution must not, if passed, be ineffective (whether by reason of inconsistency with any enactment or the Company's constitution or otherwise);

    b) the resolution must not be defamatory of any person, frivolous or vexatious; and

    c) the request:

        i may be in hard copy form or in electronic form (see note 15);

        ii must identify the resolution of which notice is to be given by either setting out the resolution in full or, if supporting a resolution sent by another member, clearly identifying the resolution which is being supported;

        iii must be authenticated by the person or persons making it (see note 15); and

        iv must be received by the Company not later than six weeks before the Meeting to which the request relates, or if later, the time at which notice is given of that Meeting.

Members' right to have a matter of business dealt with at the meeting

13. Under section 338A of the Act, a member or members meeting the qualification criteria set out at note 14, may, subject to conditions, require the Company to include in the business to be dealt with at the Meeting a matter (other than a proposed resolution) which may properly be included in the business (a matter of business). The conditions are that:

    a) the matter of business must not be defamatory of any person, frivolous or vexatious; and

    b) the request:

        i may be in hard copy form or in electronic form (see note 15);

        ii must identify the matter of business by either setting it out in full or, if supporting a statement sent by another member, clearly identify the matter of business which is being supported;

        iii must be accompanied by a statement setting out the grounds for the request;

        iv must be authenticated by the person or persons making it (see note 15); and

        v must be received by the Company not later than six weeks before the Meeting to which the request relates, or if later, the time at which notice is given of that Meeting.

Members' qualification criteria

14. A request under section 338 or section 338A of the Act (see notes 12 and 13) may only be made by:

    a) a member or members having a right to vote at the Meeting and holding at least 5% of total voting rights of the Company; or

    b) at least 100 members having a right to vote at the Meeting and holding, on average, at least £100 of paid up share capital per member.

    For information on voting rights, including the total number of voting rights, see note 10 and the website referred to in note 2.

Submission of hard copy and electronic requests and authentication requirements

15. A request made under section 338 or section 338A of the Act (see notes 12 and 13) must be made in accordance with one of the following ways:

    a) a hard copy request which is signed by the Relevant Member(s), stating their full name(s) and address(es) and sent for the attention of the Company Secretary at the Company's Registered Office address; or

    b) a request which states the Relevant Member's full name and address emailed to agm@molinsplc.com.

Notes relating to the Notice continued

Documents on display

16. Copies of directors' letters of appointment and service contracts will be available for inspection for 15 minutes before, and during, the Meeting.

Communication

17. Except where specifically provided above, members who have general queries about the Meeting or who require additional copies of the Notice and/or proxy form should write to or telephone the Company Secretary at the Company's registered office (see page 88). No other methods of communication will be accepted.

After the meeting

18. Members will have the opportunity to meet the directors of the Company.

Explanatory notes on the resolutions

Resolutions 1 to 8 are ordinary resolutions; resolutions 9, 10 and 11 are special resolutions. To be passed, ordinary resolutions require more than half the votes cast to be in favour of the resolution whilst special resolutions require at least three-quarters of the votes cast to be in favour of the resolution.

The resolutions

Ordinary business

Resolution 1 – To receive the Annual Report and Accounts 2016

The Companies Act 2006 requires the directors to lay before the Company in a general meeting copies of the Company's annual accounts, and the auditor's report on those accounts.

Resolutions 2, 3 and 4 – Directors' re-appointments

The Company's Articles of Association require a director to retire:

a) who was appointed by the Board since the last Annual General Meeting; or

b) at the third Annual General Meeting following the Annual General Meeting at which they were elected or last re-elected.

In both cases the retiring director can offer themselves for appointment/re-appointment.

Dr A Steels and Mr A Kitchingman were appointed since the last Annual General Meeting. Mr J L Davies will retire at the forthcoming Annual General Meeting. Being eligible, Mr J L Davies will offer himself for re-appointment. Biographical information for all the directors that will be re-appointed is provided on page 19 of the Annual Report and Accounts 2016.

Resolution 5 – To re-appoint KPMG LLP as auditors and to authorise the directors to determine their remuneration

It is a Companies Act 2006 (the Act) requirement that a company appoint an auditor at each general meeting at which accounts are laid, to hold office from the conclusion of the meeting until the conclusion of the next similar general meeting. The Company has evaluated the work of KPMG LLP and recommends that they be re-appointed as the Company's auditors from the conclusion of the Meeting until the conclusion of the next similar meeting. In addition, the Act states that the auditors' remuneration shall be fixed by the Meeting or in such manner as the Company in general meeting may determine. For simplicity of administration the directors are seeking authorisation to determine KPMG LLP's remuneration.

Resolution 6 – To approve the Remuneration report

This resolution seeks shareholders' approval for the Remuneration report which can be found at pages 23 to 25 of the Annual Report and Accounts 2016. The vote is advisory only.

Resolution 7 – To approve the Remuneration policy

This resolution seeks shareholders' approval for the Remuneration policy, which can be found at pages 25 to 29 of the Annual Report and Accounts 2016. The Remuneration policy sets out the Company's future policy on director's remuneration. If Resolution 8 is approved the Remuneration policy will be effective from the close of the Meeting on the 20 April 2017. Payments will continue to be made to directors (in their capacity as directors) in line with their existing contractual arrangements until that date. The Remuneration policy, if approved, will remain in force for a period of no longer than 3 years.

Special business

Resolution 8 – Power to allot securities

The Companies Act 2006 and the Company's Articles of Association permit the allotment of new shares only if the Company is authorised to do so by resolution of the Company. Such authorisation was given for a period of 15 months at a General Meeting held on 24 April 2016 and therefore the directors are seeking new shareholder authorisation at this Meeting.

The directors have no current intention of exercising the power to be conferred by this resolution and will exercise this power only when they believe that such exercise is in the best interests of the shareholders.

Resolution 9 – Disapplication of pre-emption rights

In Resolution 9 above the directors seek authority to allot securities up to an aggregate nominal value of £1,512,865 in accordance with the requirements of section 551 of the Companies Act 2006 (the Act). However section 561 of the Act requires such securities to be offered to existing shareholders (pre-emption rights). This resolution, which is permitted by sections 570 and 573 of the Act, seeks shareholders' authorisation for the directors to disapply, albeit to the extent limited within the resolution, the section 561 pre-emption rights so that the Company can satisfy immediate allotment requirements. Currently the directors have no plans to allot securities.

Resolution 10 – Purchase of own shares

At the 2016 Annual General Meeting authority to purchase for cancellation 3,000,000 ordinary shares was granted. The 2016 Annual General Meeting authority expires on 20 April 2017 and the directors consider it appropriate to seek further authority from the shareholders at the forthcoming Meeting for the Company to purchase up to a maximum number of 3,000,000 ordinary shares representing approximately 15% of the issued ordinary share capital at the date of the Notice convening the Meeting.

In reaching a decision to purchase ordinary shares, the directors will take account of the Company's cash resources and capital and the general effect of such purchase on the Company's business. The authority would only be exercised by the directors if they considered it to be in the best interests of the shareholders generally and if the purchase could be expected to result in an increase in earnings per ordinary share.

Resolution 11 – Authority to hold general meetings (other than annual general meetings) on 14 clear days' notice

The notice period required by the Companies Act 2006 for general meetings is 21 days unless shareholders approve a shorter notice period which cannot, however, be less than 14 clear days. Annual general meetings must always be held on at least 21 clear days' notice. Whereas Article 28 (1) of the Company's Articles of Association permits the Company to call a general meeting (other than an annual general meeting) on 14 clear days' notice, shareholder approval is also required by the Companies Act 2006 to give effect to this. The authority granted by Resolution 11, if passed, will be effective until the Company's next Annual General Meeting, when it is intended that a similar resolution will be proposed. In order to be able to call a general meeting on less than 21 clear days' notice, the Company must make a means of electronic voting available to all shareholders for that meeting. Resolution 11 seeks the approval of shareholders to give the Company the authority to be able to call general meetings (other than the Annual General Meeting) on 14 days' clear notice. The flexibility offered by Resolution 11 will only be used where, taking into account the circumstances, the directors consider this appropriate in relation to the business of the meeting and in the interests of the Company and shareholders as a whole.

Corporate information

Registered office
Rockingham Drive
Linford Wood East
Milton Keynes MK14 6LY
Tel: +44 (0)1908 246870
Email: molins.ho@molinsplc.com

Registered number
124855

Secretary
Mr N S Eland
Solicitor

Auditors
KPMG LLP
Altius House
One North Fourth Street
Milton Keynes MK9 1NE

Nominated Advisor & Broker
Panmure Gordon (UK) Limited
One New Change
London EC4M 9AF

Registrars
Capita Registrars
The Registry
34 Beckenham Road
Beckenham BR3 4TU

Share price
Available from:
FT Cityline – tel: +44 (0)905 817 1690
Certain national newspapers

Website
Further information is available at www.molins.com

Timetable
Annual General Meeting
20 April 2017

Payment dates for preference dividend
30 June 2017 and 31 December 2017

Half-year announcement
August 2017

Consultancy, design and production
www.luminous.co.uk

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